NEW ISSUE BOOK ENTRY ONLY | **Rating: S&P "AA"**
(See "OTHER PERTINENT INFORMATION – Ratings" herein)

OFFICIAL STATEMENT

Dated: September 24, 2018

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" herein.

$8,120,000
CITY OF NEW BRAUNFELS, TEXAS
(A political subdivision of the State of Texas located in Comal and Guadalupe Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: October 1, 2018 | **Due: February 1, as shown on page 2**

The $8,120,000 City of New Braunfels, Texas Combination Tax and Revenue Certificates of Obligation, Series 2018 (the "Certificates" or "Obligations") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, Chapters 1201 and 1502, Texas Government Code, as amended, and, an ordinance (the "Ordinance") adopted by the City Council of the City of New Braunfels, Texas (the "City" or "Issuer") on September 24, 2018. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Surplus Revenues of the Issuer's solid waste system (the "System") not to exceed $1,000 as provided in the Ordinance. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

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

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (i) expansion of recreational facilities and related improvements at Das Rec New Braunfels Recreation Center, including gymnasium, aquatic facilities and meeting space; and construction of sports fields artificial turf and field lighting including the construction, replacement or improvement to the land consisting of buildings, equipment, facilities, infrastructure or other expenditures connected therewith and (ii) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the certificates of obligation. (See "THE CERTIFICATES – Use of Certificate proceeds" herein.)

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

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. (See Appendix C – Form of Legal Opinion of Bond Counsel.) (See "OTHER PERTINENT INFORMATION - Legal Opinions and No-Litigation Certificate" herein). It is expected that the Certificates will be available for delivery through DTC on or about October 24, 2018.

$8,120,000
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018
CITY OF NEW BRAUNFELS, TEXAS
(A political subdivision of the State of Texas located in Comal and Guadalupe Counties)

STATED MATURITY SCHEDULE

CUSIP No. Prefix 642526[a]

Stated Maturity 2/1	Principal Amount	Interest Rate	Intital Yield	CUSIP No. Suffix [a]	Stated Maturity 2/1	Principal Amount	Interest Rate	Intital Yield	CUSIP No. Suffix [a]
2019	$ 295,000	5.000%	1.950%	US4	2029	$ 415,000	5.000%	2.880%[b]	VC8
2020	270,000	5.000%	2.000%	UT2	2030	435,000	3.000%	3.100%	VD6
2021	285,000	5.000%	2.050%	UU9	2031	445,000	3.125%	3.200%	VE4
2022	300,000	5.000%	2.150%	UV7	2032	460,000	3.250%	3.300%	VF1
2023	310,000	3.000%	2.250%	UW5	2033	475,000	3.250%	3.400%	VG9
2024	325,000	5.000%	2.400%	UX3	2034	490,000	3.500%	3.500%	VH7
2025	340,000	5.000%	2.510%	UY1	2035	510,000	3.500%	3.550%	VJ3
2026	360,000	5.000%	2.650%	UZ8	2036	525,000	3.500%	3.600%	VK0
2027	375,000	5.000%	2.750%	VA2	2037	545,000	3.625%	3.650%	VL8
2028	395,000	5.000%	2.810%	VB0	2038	565,000	3.625%	3.700%	VM6

(Interest to accrue from the Dated Date)

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

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

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

CITY OF NEW BRAUNFELS TEXAS

550 Landa Street
New Braunfels, Texas 78130
(830) 221-4000 – Phone

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Barron Casteel Mayor	3	2020	Attorney
Wayne Peters Mayor Pro-Tem	3	2020	Retired
Shane Hines Councilmember, District 1	<1	2019	Business owner & General Contractor
Justin Meadows Councilmember, District 2	3	2019	Insurance Agent
Harry Bowers Councilmember, District 3	<1	2021	Professor
Matthew E. Hoyt Councilmember, District 4	<1	2021	Business owner
Leah A. Garcia Councilmember, District 6	3	2020	Sales

ADMINISTRATION

Name	Position	Length of Service With the City (Years)
Robert Camareno	City Manager	10
Kristi Aday	Assistant City Manager	4
Bryan Woods	Assistant City Manager	3
Jared Werner	Chief Financial Officer	11
Patrick Aten	City Secretary	7
Valerie Acevedo	City Attorney	6

CONSULTANTS AND ADVISORS

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

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

Auditor .... Belt Harris Pechacek, LLLP
Houston, Texas

For Additional Information Please Contact:

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New Braunfels, Texas 78130
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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Issuer's undertaking to provide certain information on a continuing basis.

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

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

NONE OF THE ISSUER, NOR ITS FINANCIAL ADVISOR, MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION IS PROVIDED BY DTC.

The agreements of the Issuer and others related to the Obligations are contained solely in the contracts described herein. Neither this Official Statement or any other statement made in connection with the offer or sale of the Obligations is to be construed as constituting an agreement with the purchasers of the Obligations. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of New Braunfels, Texas (the "City" or "Issuer") is a municipal corporation, a home rule municipality and a political subdivision of the State of Texas located on Interstate Highway 35, 33 miles northeast of San Antonio. The City operates as a home rule city under the laws of the State of Texas which was last amended on May 7, 2005. The City's 2010 population was 57,740, an increase of 60.36% since 2000. The 2018 approximate population is 80,000. The City serves as the county seat of Comal County. The economy is primarily based on tourism and manufacturing. (See APPENDIX B - "General Information Regarding the City of New Braunfels, Texas and Comal and Guadalupe Counties, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, Chapters 1201 and 1502, Texas Government Code, as amended, an ordinance (the "Ordinance") adopted on September 24, 2018 by the City Council, and the City's Home Rule Charter. (see "THE CERTIFICATES – Authority for Issuance").
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Certificates is UMB Bank, N.A., Austin, Texas.
Security for the Certificates	The Certificates constitute direct and general obligations of the Issuer payable primarily from annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Surplus Revenues of the Issuer's solid waste system (the "System") not to exceed $1,000 as provided in the Ordinance. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
Redemption Provisions	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on and after February 1, 2029, on February 1, 2028 or any date thereafter, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, at the price of par plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES - Redemption Provisions" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof. (See "TAX MATTERS" for a discussion of the Opinion of Bond Counsel and "APPENDIX C - FORM OF LEGAL OPINION OF BOND COUNSEL" herein.)
Use of Proceeds of the Certificates	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements, to-wit: (i) expansion of recreational facilities and related improvements at Das Rec New Braunfels Recreation Center, including gymnasium, aquatic facilities and meeting space; and construction of sports fields artificial turf and field lighting including the construction, replacement or improvement to the land consisting of buildings, equipment, facilities, infrastructure or other expenditures connected therewith and (ii) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the certificates of obligation. (See "THE CERTIFICATES - Use of Certificate proceeds" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York described herein. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Such Book-Entry-Only System may affect the method and timing of payments on the Certificates and the manner the Certificates may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Ratings	S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA". (See "OTHER PERTINENT INFORMATION - Ratings" herein.)
Payment Record	The City has never defaulted on the payment of its ad valorem tax backed indebtedness.
Delivery	When issued, anticipated on or about October 24, 2018.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Austin, Texas.

OFFICIAL STATEMENT
Relating to

$8,120,000
CITY OF NEW BRAUNFELS, TEXAS
(A political subdivision of the State of Texas located in Comal and Guadalupe Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of New Braunfels, Texas (the "City" or "Issuer") of its $8,120,000 Combination Tax and Revenue Certificates of Obligation, Series 2018 (the "Certificates") identified on the cover page hereof.

The Issuer is a political subdivision of the State of Texas and operates as a home-rule municipality under the statutes and the Constitution of the State of Texas (the "State"). The Certificates are being issued pursuant to the Constitution and general laws of the State, including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, Chapters 1201 and 1502, Texas Government Code, as amended, an ordinance (the "Ordinance") adopted on September 24, 2018 by the City Council, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT***. Copies of such documents may be obtained from the Issuer or the Financial Advisor noted on page 3 hereof.

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, references to websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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

THE CERTIFICATES

General Description of the Certificates

The Certificates are dated October 1, 2018 (the "Dated Date"). The Certificates are stated to mature on February 1 in the years and in the principal amounts and will bear interest at per annum rates as set forth on page 2 hereof. The Certificates will be issued only in fully registered form and in denominations of $5,000 or any integral multiple thereof within a stated maturity. The Certificates shall bear interest from the Dated Date on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Certificates will be payable on February 1 and August 1 of each year commencing February 1, 2019 until stated maturity or prior redemption. Principal is payable at the designated office of the Paying Agent/Registrar, initially UMB Bank, N.A., Austin, Texas.

Initially, the Certificates will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described below. No physical delivery of the Certificates will be made to the Beneficial Owners. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co. which will distribute the amounts received to the Beneficial Owners of the Certificates. Such Book-Entry-Only System may change the method and timing of payment for the Certificates and the method of transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Certificates are being issued pursuant to the Certificate of Obligation Act of 1971, Chapter 271, Texas Local Government Code, as amended, Chapters 1201 and 1502, Texas Government Code, as amended, an ordinance (the "Ordinance") adopted on September 24, 2018, the date of sale of the Certificates by the City Council of the City, and the City's Home Rule Charter.

Security for Payment

The Certificates constitute direct and general obligations of the Issuer payable primarily from ad valorem taxes levied annually against all taxable property therein, within the limits prescribed by law (See "TAX RATE LIMITATIONS" herein). In addition, the Certificates are further secured by a lien on and pledge of the Surplus Revenues of the Issuer's solid waste system (the "System") not to exceed $1,000 as provided in the Ordinance.

Use of Certificate proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements, to-wit: (i) expansion of recreational facilities and related improvements at Das Rec New Braunfels Recreation Center, including gymnasium, aquatic facilities and meeting space; and construction of sports fields artificial turf and field lighting including the construction, replacement or improvement to the land consisting of buildings, equipment, facilities, infrastructure or other expenditures connected therewith and (ii) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the certificates of obligation.

Redemption Provisions

Optional Redemption: The Issuer reserves the right, at its option, to redeem the Certificates maturing on and after February 1, 2029 on February 1, 2028, or any date thereafter, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

Not less than thirty (30) days prior to a redemption date for the Certificates, the City shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owners of each Certificate or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar at the close of business on the 45th day prior to the redemption. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. If such notice of redemption is given and any other condition to redemption satisfied, all as provided above, the Certificates or portion thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

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

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

SOURCES AND USES OF FUNDS

Sources of Funds		**The Certificates**
Par Amount		$ 8,120,000.00
Accrued Interest		20,971.93
Net Original Issue Reoffering Premium		380,968.15
	Total Sources of Funds	$ 8,521,940.08
Uses of Funds		
Deposit to Project Fund		$ 8,300,000.00
Costs of Issuance		91,525.47
Purchaser's Discount		109,442.68
Deposit to Certificate Fund		20,971.93
	Total Uses of Funds	$ 8,521,940.08

Payment Record

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

Legality

The Certificates are offered when, as and if issued, subject to the approvals of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Defeasance

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "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 City authorizes the defeasance of the Certificates, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that, on the date the City authorizes the defeasance of the Certificates, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any obligations hereafter authorized by law to be eligible to effect the defeasance of the Certificates. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that 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 or redemption of Certificates have been made as described above, all rights of the City to initiate proceedings to call such Certificates for redemption or take any other action amending the terms of such Certificates are extinguished; provided, however, that the right to call such Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of such Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Default and Remedies

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions.

The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the Certificateholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

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

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

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

Initially, the only registered owner of the Certificates will be Cede & Co., as nominee of DTC. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of the Certificates.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Certificates is UMB Bank, N.A., Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

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

The record date ("Record Date") for interest payable to the registered owner of a Certificate on any Interest Payment Date means the fifteenth (15th) day of the month next preceding such Interest Payment Date.

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

Future Registration

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

Limitation on Transfer or Exchange of Certificates

The Paying Agent/Registrar shall not be required to transfer or exchange any Certificates or any portion thereof 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.

Replacement Certificates

In the Ordinance, provision is made for the replacement of mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or the receipt of satisfactory evidence of destruction, loss, or theft, and the receipt by the Issuer and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

BOOK-ENTRY-ONLY SYSTEM

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

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), 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 jointly referred to as “Participants”. DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the SEC. 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices for the Certificates 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 District 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 City or the Paying Agent/Registrar, on the 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 City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment on the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City 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 City 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.

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 City, the Financial Advisor, or the initial purchaser of the Certificates.

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.

INVESTMENT POLICIES

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

Legal Investment

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances 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 funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by SEC Rule 2a-7; (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, Certificate 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 Certificate proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

Investment Policies

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

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

Additional Provisions

Under Texas law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding Certificate proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of Certificate proceeds, reserves and funds held for debt service and to no more than 15% of the Issuer's monthly average fund balance, excluding Certificate proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of Certificate proceeds reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding Certificate proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer.

Current Investments [1] **TABLE 1**

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

Investment Type	Amount	Percentage
Treasury Coupon Securities	$ 4,993,241	5.37%
TexPool	80,111,317	86.03%
Frost Checking	5,155,453	5.53%
JPMorgan Chase	2,859,023	3.07%
Total	$ 93,119,034	100.00%

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

(1) Unaudited.

AD VALOREM TAX PROCEDURES

The appraisal of property within the City is the responsibility of the Comal Appraisal District and Guadalupe Appraisal District (collectively, 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 the State's 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 market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value 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 the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

Under Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant, or upon presentation of a petition must call an election on whether to grant: (1) an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (2) an exemption of up to 20% of the market value of residence homesteads, with the minimum exemption under this provision being $5,000. 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 taxpayer qualified if (i) the taxpayer died in a year in which the taxpayer qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the taxpayer and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and remains the residence homestead of the surviving spouse.

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 certificate of the contract by which the debt was created.

In addition, cities are authorized to refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based upon the disability or age of the owner or (2) the year the city chooses to establish the above-referenced limitation. On the receipt of a petition signed by five percent of the registered voters of the City, the City must call an election to determine by majority vote whether to establish such a tax limitation. Such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) 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.

State law and Article VIII, Section 2, mandate an additional property tax exemption for disabled veterans or the surviving spouse or minor children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000 and, a disabled veteran who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of one hundred percent is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 270 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in- transit exemption for items of personal property.

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

The City may create one or more tax increment financing zones within the City ("TIRZ"), under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the "frozen" value are not available for general City use but are restricted to paying or financing "project costs" within the TIRZ.

The City may also enter into tax abatement agreements with companies to encourage economic development. In a tax abatement agreement, the City agrees to not levy a tax on all or a portion of the new value added by a development for a period of up to ten years if the developer must meet certain requirements regarding investment value, job creation, local and minority/women owned business contracting, etc.

The City is authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

Effective Tax Rate and Rollback Tax Rate

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

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

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

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

The State's 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 State's Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Property Assessment and Tax Payment

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 15 of the following year. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1.

Penalties and Interest

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

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

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

City Application of Tax Code

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $3,750; the disabled are not granted an additional exemption.

The City has granted an additional exemption of up to 20% of the market value of residential homesteads with a minimum exemption of $5,000.

The City has taken action to establish a tax limitation on ad valorem taxes levied by the City against the residence homestead of persons 65 years of age or older and their spouses and disabled persons.

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

The City does not tax nonbusiness personal property; and Comal County and Guadalupe County, as applicable, collect taxes for the City.

On May 29, 2007, the City Council authorized an ordinance creating a TIRZ that totaled 497 acres with a taxable "base" value of $4,985,170 and a current taxable value of $317,091,869, for a period of 25 years, ending December 31, 2032.

The City currently has no tax abatement agreements in place.

The City currently has Chapter 380 agreements with Investor Grosenbacher Partnership and NB Retail LTD ("Investor Grosenbacher"), associated with its Westpointe Village development in the City (the "Westpointe Village Agreement"); with HD Supply Facilities Maintenance, LTD ("HD Supply"), associated with its development of a customer contact call center in the City (the "HD Supply Agreement"); and with HEB Grocery Company, LP ("HEB"), associated with its HEB Grocery Store development in the City (the "HEB Agreement").

The Westpointe Village Agreement allows for a rebate of 70% of the proceeds of the City's ad-valorem tax levied on improvements on the development after January 1, 2008, and a rebate of 50% of the City's General Fund sales tax revenue collected from the Westpointe Village development. The Westpointe Village agreement shall remain in effect until January 1, 2035, or until the City has rebated $4,117,000 in combined ad-valorem and sales tax revenue to Investor Grosenbacher, less amounts due to the City under the terms of the Westpointe Village Agreement.

The HD Supply Agreement allows for a rebate of 50% of all sales tax revenue received from HD Supply in connection with its development for a period of at least 10 but up to 20 years effective as of the earlier of the date the City first receives sales tax revenue from the development described in the HD Supply Agreement or April 1, 2007. HD Supply has agreed, pursuant to the terms of the HD Supply Agreement, to provide at least 390 permanent jobs when the development is complete.

The HEB Agreement allows for a rebate of the 50% of the City's General Fund sales tax revenue received from HEB in connection with the development described in the HEB Agreement for a period of five years, commencing upon the date the development opens to the public, or until the City has rebated $700,000 to HEB. HEB has agreed, pursuant to the terms of the HEB Agreement, to invest at least $14,000,000 in the design and construction of the development and employ at least 108 full-time employees by December 31, 2021.

Municipal Sales Tax

The City has adopted the provisions of Property Tax Code § 321.001 et seq., which grants the City the power to impose and levy a one percent (1%) Local Sales and Use Tax within the City. The proceeds of such tax are credited to the General Fund and are not pledged to payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State (the "Comptroller"), who monthly remits the proceeds of the tax, after deduction of a two percent (2%) service fee, to the City.

The Property Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (½%) sales and use tax for the purpose of reducing its ad valorem property taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales and use tax revenues to be generated in the current year. Subject to the approval of a majority of the voters in a local option election, State law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the state sales and use tax rate of 6¼%).

In addition to the one percent (1%) local sales and use tax referred to above, voters of the City have approved the imposition of an additional three-eighths of one-percent (3/8%) aggregate local sales and use tax for economic development and community development.

TAX RATE LIMITATIONS

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population: $2.50 per $100 assessed valuation. The Issuer has adopted a Home Rule Charter which does not limit the City's maximum tax rate limit beyond the Constitutional limit of $2.50 per $100 of assessed valuation for all Issuer purposes. No direct funded debt limitation is imposed on the City under current Texas law.

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

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

TAX MATTERS

Opinion

On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the Issuer, 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 certificates" 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 Issuer 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.

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 is conditioned on compliance by the Issuer with such requirements, and Bond Counsel 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. 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 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 Issuer with respect to the Certificates or the property financed or refinanced with proceeds of the Certificates. No assurances can be given as to whether or not 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 Issuer as the taxpayer and the Owner 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 an 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 accrual period 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 accumulated earnings and profits and excess passive investment income, 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 THE RECENTLY ENACTED LEGISLATION OR PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT CERTIFICATES 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 certificate" 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.

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.

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 owner 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 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 to investors who are not United States persons, certification as to foreign status, and other matters may be required to be provided by partners and beneficiaries thereof.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The City will provide annually to the MSRB, (i) within six months after the end of each fiscal year of the City ending in or after 2018, financial information and operating data with respect to the City of the general type included in this Official Statement being the information of the type included in Table 1 hereof and Tables 1 through 10 of Appendix A and the financial statements included in Appendix D if audited financial statements are then available, and (ii) if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in Appendix D and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statement is not complete within 12 months after any such fiscal year end, then the City shall 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.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial statements by the required time and will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten Business Days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in item (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. 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 office of the Paying Agent/Registrar is located (currently, its Dallas, Texas office) are authorized by law or executive order to close.

Availability of Information from MSRB

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

Limitations and Amendments

The Issuer has agreed to update information and to provide notices of specified events only as described above. The Issuer 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 Issuer 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 Issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Certificates may seek a writ of mandamus to compel the Issuer to comply with its agreement.

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

Compliance with Prior Agreements

During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule. However, when Moody's Investors Service, Inc. ("Moody's") upgraded the City's unenhanced debt rating from "A1" to "Aa2" on April 23, 2010 as a result of the recalibration of its municipal ratings, the City did not file the upgrade with EMMA because it believed that it was filed by Moody's. During the City's past offerings the City incorrectly stated that it had filed the Moody's recalibrating upgrade on August 2, 2010 when, in fact, it did not. The City's unenhanced credit rating of "Aa2" has been in place since April 23, 2010. On May 29, 2014, the City filed a material event notice relating to its failure to file in 2010 and actually filed the Moody's rating upgrade through EMMA. (See "OTHER PERTINENT INFORMATION – Ratings" herein.)

OTHER PERTINENT INFORMATION

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 Issuer 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.

Litigation

In the opinion of the City Attorney, the Issuer is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the Issuer, would have a material adverse effect on the financial condition of the City.

Recent Debt Issuance

The City has closed and delivered its General Obligation Bonds, Series 2018 in the principal amount of $21,620,000 and its Tax Notes, Series 2018 in the principal amount of $3,000,000, which occurred on September 25, 2018.

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 real 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. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, 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 PERTINENT INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with 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 fair market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

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

Legal Opinions

Issuance of the Certificates is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Certificates are valid and binding obligations of the Issuer payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the Issuer. Issuance of the Certificates is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the Issuer payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described herein under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the Issuer. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are based upon a percentage of Certificates actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Certificates.

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

No-Litigation Certificate

The Issuer will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by both the Mayor and City Secretary, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

No Material Adverse Change

The obligations of the Initial Purchaser to take and pay for the Certificates, and of the Issuer to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the Issuer from that set forth or contemplated in the Official Statement.

Ratings

S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA" to the Certificates. The Issuer currently has an S&P underlying rating of "AA" and a rating of "Aa2" by Moody's on its general obligation debt. An explanation of the significance of such rating may be obtained from the rating agency. A rating by a rating agency reflects only the views of such company at the time the ratings are given, and the Issuer 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 the rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Financial Advisor

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

Winning Bidder

On September 24, 2018, it is expected that the Certificates will be awarded to an underwriter or group of underwriters managed by Robert W. Baird & Co., Inc. (the "Purchaser" or "Initial Purchaser") through a competitive bid process, or the City will reject all bids in accordance with the provisions of the Official Notice of Sale. The initial reoffering yields will be supplied to the City by the Purchaser. The initial reoffering yields shown on the final cover page of the Official Statement will produce compensation to the Purchaser of approximately $109,442.68.

Certification of the Official Statement

The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Certificates to the Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Certificates subsequent to the "end of the underwriting period" is the responsibility of the Initial Purchaser.

Updating the Official Statement during Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Purchaser is no longer required to provide and Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the City learns or is notified by the Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the City will promptly prepare and supply to the Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Purchaser, unless the Purchaser elects to terminate its obligation to purchase the Certificates as described in the notice of sale accompanying this Official Statement. The obligation of the City to update or change the Official Statement will terminate when the City delivers the Certificates to the Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the

Purchaser provides written notice the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Certificates have been sold to ultimate customers. In the event the Purchaser provides written notice to the City that less than all of the Certificates have been sold to ultimate customers, the Purchaser agrees to notify the City in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

Forward-Looking Statements Disclaimer

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

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

Concluding Statement

The financial data and other information contained in this Official Statement have been obtained from the City'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 statues, 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.

This Official Statement was approved by the City Council of the Issuer for distribution in accordance with the provisions of the Rule.

CITY OF NEW BRAUNFELS, TEXAS

/s/ Barron Casteel
Mayor
City of New Braunfels, Texas

ATTEST:

/s/ Patrick Aten
City Secretary
City of New Braunfels, Texas

APPENDIX A

FINANCIAL INFORMATION
CITY OF NEW BRAUNFELS, TEXAS

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION — TABLE 1

2018 Preliminary Market Value of Taxable Property (100% of Market Value)	$	9,127,328,811
Less Exemptions:		
Local Optional Over-65 or Disabled Exemption	$	20,860,558
Veterans' Exemption		134,801,241
Freeport Exemption		41,050
Productivity Value Loss		181,979,678
Abatement Value Loss		-
Low Income Housing		144,410
Homestead		714,410,048
Historical/Non Req. Exemption Loss		6,312,060
Solar Exemption		257,127
10% Per Year Cap on Res. Homesteads		31,571,698
TOTAL EXEMPTIONS		1,090,377,870
2018 Preliminary Assessed Value of Taxable Property	$	8,036,950,941 *

Source: Comal and Guadalupe County Appraisal Districts.
** Includes Freeze Taxable Value of $838,174,473.*

GENERAL OBLIGATION BONDED DEBT

(as of September 1, 2018)

General Obligation Debt Principal Outstanding		
Combination Tax and Airport System Revenue Certificates of Obligation, Series 2006A	$	440,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2009		475,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011		13,535,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012		14,940,000
General Obligation Refunding Bonds, Series 2013		2,130,000
General Obligation Refunding Bonds, Series 2013A		2,915,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013		15,985,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014A		5,825,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014B (AMT)		2,920,000
General Obligation Bonds, Series 2014		11,930,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015		4,830,000
General Obligation and Refunding Bonds, Series 2015		27,515,000
Tax Notes, Series 2015		745,000
General Obligation and Refunding Bonds, Series 2016		36,095,000
General Obligation Refunding Bonds, Series 2017		5,200,000
General Obligation Bonds, Series 2018		21,620,000
Tax Notes, Series 2018		3,000,000
The Obligations		8,120,000
Total Gross General Obligation Debt	$	178,220,000
Less: Self Supporting Debt		
Combination Tax and Airport System Revenue Certificates of Obligation, Series 2006A (100% Airport)	$	440,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012 (40.03% Sales Tax)		5,980,000
General Obligation Refunding Bonds, Series 2013 (100% Sales Tax)		2,130,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013 (8.38% Sales Tax)		1,340,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014B (AMT)(100% Airport)		2,920,000
General Obligation and Refunding Bonds, Series 2015 (14.17% Hotel Occupancy Tax and 1.44% Solid Waste)		4,295,000
General Obligation and Refunding Bonds, Series 2016 (0.53% Solid Waste)		190,000
The Obligations (100% EDC)		8,120,000
Total Self-Supporting Debt	$	17,295,000
Total Net General Obligation Debt Outstanding	$	160,925,000
2018 Preliminary Net Assessed Valuation	$	8,036,950,941
Ratio of Total Gross General Obligation Debt Principal to 2018 Certified Net Taxable Assessed Valuation		2.22%
Ratio of Net General Obligation Debt to 2018 Certified Net Taxable Assessed Valuation		2.00%

Population: 1990 - 27,334; 2000 - 36,494; 2010 - 57,740; est. 2018 - 80,000
Per Capita Certified Net Taxable Assessed Valuation - $100,462
Per Capita Gross General Obligation Debt Principal - $2,228
Per Capita Net General Obligation Debt Principal - $2,012

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

(As of September 30, 2017)

None

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

(As of September 30, 2017)

FYE (9/30)	Current Total Outstanding Debt[(a)]	The Obligations Principal	The Obligations Interest [(1)]	The Obligations Total	Combined Debt Service	Less: Self Supporting Debt [(2)]	Total Net Debt Service
2018	$ 14,882,855				$ 14,882,855	$ 2,398,018	$ 12,484,837
2019	16,634,340	$ 295,000	$ 266,172	$ 561,172	17,195,511	2,777,133	14,418,379
2020	17,239,821	270,000	306,756	576,756	17,816,577	2,760,421	15,056,156
2021	16,771,782	285,000	292,881	577,881	17,349,663	2,773,059	14,576,604
2022	16,622,617	300,000	278,256	578,256	17,200,873	2,665,369	14,535,505
2023	16,181,111	310,000	266,106	576,106	16,757,217	2,687,700	14,069,517
2024	15,631,853	325,000	253,331	578,331	16,210,184	2,201,338	14,008,847
2025	16,157,335	340,000	236,706	576,706	16,734,042	2,213,713	14,520,329
2026	14,084,530	360,000	219,206	579,206	14,663,737	2,207,706	12,456,030
2027	13,353,884	375,000	200,831	575,831	13,929,716	1,608,922	12,320,794
2028	12,676,381	395,000	181,581	576,581	13,252,962	1,612,753	11,640,209
2029	11,684,888	415,000	161,331	576,331	12,261,219	1,539,031	10,722,188
2030	11,120,579	435,000	144,431	579,431	11,700,010	1,538,506	10,161,504
2031	11,120,366	445,000	130,953	575,953	11,696,319	1,540,950	10,155,369
2032	9,777,313	460,000	116,525	576,525	10,353,838	1,539,844	8,813,994
2033	8,357,694	475,000	101,331	576,331	8,934,025	970,644	7,963,381
2034	6,902,431	490,000	85,038	575,038	7,477,469	847,406	6,630,063
2035	5,126,319	510,000	67,538	577,538	5,703,856	587,094	5,116,763
2036	3,690,566	525,000	49,425	574,425	4,264,991	587,406	3,677,584
2037	1,785,913	545,000	30,359	575,359	2,361,272	586,969	1,774,303
2038	1,780,625	565,000	10,241	575,241	2,355,866	585,781	1,770,084
Total	$ 241,583,201	$ 8,120,000	$ 3,399,000	$ 11,519,000	$ 253,102,202	$ 36,229,761	$ 216,872,440

[(a)] *Includes self-supporting debt.*
[(1)] *Interest calculated at an assumed rate for puroses of illustration.*
[(2)] *See TABLE 1 - General Obligation Bonded Debt for a detail of the City's self-supported debt outstanding.*

TAX ADEQUACY (Includes Self-Supporting Debt)

2018 Certified Freeze Adjusted Net Taxable Assessed Valuation	$	7,198,776,468
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2020)	$	17,816,577
Indicated Required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service Requirements	$	0.2525

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

TAX ADEQUACY (Excludes Self-Supporting Debt)

2018 Certified Freeze Adjusted Net Taxable Assessed Valuation	$	7,198,776,468
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2020)	$	15,056,156
Indicated Required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service Requirements	$	0.2134

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

INTEREST AND SINKING FUND MANAGEMENT INDEX

Audited Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2017	$ 1,877,188
2017 Interest and Sinking Fund Tax Levy at 98% Collections Produce	14,067,651
Plus: Other City Funds	2,398,018
Total Available for General Fund Debt	$ 18,342,857
Less: General Obligation Debt Service Requirements, Fiscal Year Ended September 30, 2	$ 14,882,855
Estimated Surplus at Fiscal Year Ending September 30, 2018	$ 3,460,002

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(As of September 1, 2018)

	Principal Repayment Schedule			Principal	Percent of
Fiscal Year Ending 9-30	Currently Outstanding[(a)]	The Obligations	Total	Unpaid at End of Year	Principal Retired (%)
2018			$ -	$ 178,220,000	0.00%
2019	$ 10,070,000	$ 295,000	10,365,000	167,855,000	5.82%
2020	10,980,000	270,000	11,250,000	156,605,000	12.13%
2021	10,870,000	285,000	11,155,000	145,450,000	18.39%
2022	11,100,000	300,000	11,400,000	134,050,000	24.78%
2023	11,120,000	310,000	11,430,000	122,620,000	31.20%
2024	11,045,000	325,000	11,370,000	111,250,000	37.58%
2025	12,070,000	340,000	12,410,000	98,840,000	44.54%
2026	10,505,000	360,000	10,865,000	87,975,000	50.64%
2027	10,215,000	375,000	10,590,000	77,385,000	56.58%
2028	9,945,000	395,000	10,340,000	67,045,000	62.38%
2029	9,340,000	415,000	9,755,000	57,290,000	67.85%
2030	9,150,000	435,000	9,585,000	47,705,000	73.23%
2031	9,545,000	445,000	9,990,000	37,715,000	78.84%
2032	8,580,000	460,000	9,040,000	28,675,000	83.91%
2033	7,495,000	475,000	7,970,000	20,705,000	88.38%
2034	6,335,000	490,000	6,825,000	13,880,000	92.21%
2035	4,785,000	510,000	5,295,000	8,585,000	95.18%
2036	3,505,000	525,000	4,030,000	4,555,000	97.44%
2037	1,695,000	545,000	2,240,000	2,315,000	98.70%
2038	1,750,000	565,000	2,315,000	-	100.00%
Total	$ 170,100,000	$ 8,120,000	$ 178,220,000		

[(a)] *Includes self-supporting debt. See TABLE 1 - General Obligation Bonded Debt for a detail of the City's self-supported debt outstanding.*

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2009-2018 **TABLE 3**

Year	Net Taxable Assessed Valuation	Change From Preceding Year Amount ($)	Percent
2009-10	$ 3,948,442,712	---	---
2010-11	3,939,547,264	(8,895,448)	-0.23%
2011-12	3,941,733,272	2,186,008	0.06%
2012-13	4,178,203,307	236,470,035	6.00%
2013-14	4,452,304,694	274,101,387	6.56%
2014-15	5,003,834,374	551,529,680	12.39%
2015-16	5,655,196,350	651,361,976	13.02%
2016-17	6,174,720,505	519,524,155	9.19%
2017-18	6,898,322,770	723,602,265	11.72%
2018-19	8,036,950,941	1,138,628,171	16.51%

Source: Comal and Guadalupe Central Appraisal Districts.

PRINCIPAL TAXPAYERS 2017 **TABLE 4**

Name	Type of Business/Property	2017 Net Taxable Assessed Valuation	% of Total 2017 Assessed Valuation
Central Texas Corridor Hospital CO LLC	Healthcare	$ 100,067,210	1.45%
A L 95 Creekside Town Center LP	Commercial Development	86,970,660	1.26%
Rush Enterprises	Truck Leasing	63,524,470	0.92%
PAC Creekside LLC	Apartments	49,559,070	0.72%
Kahlig Enterprises Inc.	Used Car Dealership	40,820,930	0.59%
HEB Grocery CO LP	Grocerty	40,278,171	0.58%
Contintental 306 Fund LLC	Financial Services	30,081,400	0.44%
Villas at Sundance I LLC Et Al	Apartments	28,900,000	0.42%
T4V3 LLC	Commercial Development	27,400,000	0.40%
Augusta Gruene Apartments LP	Apartments	25,296,470	0.37%
		$ 492,898,381	6.38%

Source: Comal and Guadalupe Central Appraisal Districts.

MUNICIPAL SALES TAX COLLECTIONS **TABLE 5**

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development sales tax. The Issuer has an additional 3/8 of 1 cent sales tax for the benefit of the Issuer's Type B Economic Development Corporation. Collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2009	$ 17,402,883	107.54%	$ 0.441
2010	18,418,526	114.07%	0.468
2011	19,841,714	112.27%	0.503
2012	20,012,421	102.49%	0.479
2013	24,727,799	111.47%	0.555
2014	26,959,588	108.14%	0.539
2015	27,087,906	96.14%	0.479
2016	28,850,406	93.78%	0.467
2017	30,144,639	89.51%	0.437
2018	17,478,352		(As of July 2018)

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

CLASSIFICATION OF ASSESSED VALUATION **TABLE 6**

	2018*	% of Total	2017	% of Total	2016	% of Total
Real, Residential, Single-Family	$ 5,386,071,447	59.01%	$ 4,945,189,747	61.93%	$ 4,391,564,969	61.59%
Real, Residential, Multi-Family	719,245,113	7.88%	528,736,823	6.62%	460,552,028	6.46%
Real, Vacant Lots/Tracts	261,072,910	2.86%	202,477,863	2.54%	178,997,327	2.51%
Real, Acreage (Land Only)	182,985,462	2.00%	169,386,461	2.12%	163,847,113	2.30%
Real, Farm and Ranch Improvements	64,549,136	0.71%	56,957,489	0.71%	50,996,255	0.72%
Real, Commercial	1,701,051,492	18.64%	1,280,727,340	16.04%	1,217,090,741	17.07%
Real, Industrial	78,101,697	0.86%	165,458,259	2.07%	56,718,225	0.80%
Real & Tangible, Personal Utilities	30,975,373	0.34%	31,110,782	0.39%	29,420,101	0.41%
Tangible Personal, Commercial	455,117,466	4.99%	390,093,570	4.89%	397,834,421	5.58%
Tangible Personal, Industrial	189,606,077	2.08%	81,060,537	1.02%	80,803,958	1.13%
Tangible Personal, Mobile Homes	21,204,636	0.23%	21,044,961	0.26%	21,984,826	0.31%
Residential Inventory	17,251,821	0.19%	64,090,035	0.80%	33,869,919	0.48%
Special Inventory	20,096,181	0.22%	49,105,195	0.61%	46,311,333	0.65%
Total Appraised Value	$ 9,127,328,811	100.00%	$ 7,985,439,062	100.00%	$ 7,129,991,216	100.00%
Less:						
Local Optional Over-65 or Disabled Exemption	$ 20,860,558		$ 20,474,304		$ 19,732,696	
Veterans' Exemption	134,801,241		82,103,658		85,828,711	
Freeport Exemption	41,050		16,590,003		20,353,100	
Productivity Value Loss	181,979,678		168,546,615		162,984,414	
Abatement Value Loss	-		7,743,295		120,590	
Low Income Housing	144,410		31,117,621		-	
Homestead	714,410,048		695,502,149		617,912,579	
Historical/Non Req. Exemption Loss	6,312,060		-		6,660,082	
Solar Exemption	257,127		232,316		62,277	
10% Per Year Cap on Res. Homesteads	31,571,698		64,806,331		41,616,262	
Net Taxable Assessed Valuation	$ 8,036,950,941		$ 6,898,322,770		$ 6,174,720,505	

Source: Comal and Guadalupe County Appraisal Districts.
** Reflects preliminary values provided by the Comal and Guadalupe Central Appraisal Districts.*

TAX DATA **TABLE 7**

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections Current	% of Collections Total	Year Ended	
2009	$ 3,948,442,712	$ 0.409862	$ 16,183,166	98.06	99.00	9/30/2010	
2010	3,939,547,264	0.409862	16,146,707	98.57	101.10	9/30/2011	
2011	3,941,733,272	0.448362	17,673,234	98.22	100.10	9/30/2012	
2012	4,178,203,307	0.467344	19,526,582	99.92	101.70	9/30/2013	
2013	4,452,304,694	0.498230	22,182,718	98.64	99.50	9/30/2014	
2014	5,003,834,374	0.498230	24,930,604	99.12	100.30	9/30/2015	
2015	5,655,196,350	0.498230	28,175,885	99.13	100.10	9/30/2016	
2016	6,174,720,505	0.498230	30,764,310	98.87	101.14	9/30/2017	
2017	6,898,322,770	0.488220	33,678,991	97.63	98.32	9/30/2018	*
2018	8,036,950,941					9/30/2019	

** Collections as of June 30, 2018.*

TAX RATE DISTRIBUTION **TABLE 8**

	2017	2016	2015	2014	2013
General Fund	$ 0.288370	$ 0.278079	$ 0.278079	$ 0.278079	$ 0.278079
I & S Fund	0.199850	0.220151	0.220151	0.220151	0.220151
Total Tax Rate	$ 0.488220	$ 0.498230	$ 0.498230	$ 0.498230	$ 0.498230

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

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2017 Assessed Valuation	% of Actual	2017 Tax Rate
Comal County	$ 16,111,118,698	100%	$ 0.308000
Comal Independent School District	13,264,610,468	100%	1.390000
Guadalupe County	10,846,229,588	100%	0.327000
Navarro Independent School District	889,893,331	100%	1.350000
New Braunfels Independent School District	4,226,245,427	100%	1.339000

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

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

Issuer	Date of Authorization	Purpose	Authorization	Issued to Date	Unissued
City of New Braunfels	5/11/2013	Streets and Sidewalks	$ 37,500,000	$ 34,984,775	$ 2,515,225
	5/11/2013	Flood and Drainage	24,500,000	21,955,225	2,544,775
	5/11/2013	Park Improvements	20,000,000	20,000,000	-
	5/11/2013	Municipal Facilities	4,000,000	4,000,000	-
			$ 86,000,000	$ 80,940,000	$ 5,060,000
Comal County	None				
Comal Independent School District	None				
Guadalupe County	None				
Navarro Independent School District	None				
New Braunfels Independent School District	None				

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

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

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

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Fund Balance - Beginning of Year	$ 18,611,703	$ 20,996,452	$ 22,619,456	$ 19,851,597	$ 24,450,598
Revenues	$ 59,233,189	$ 55,246,993	$ 49,799,765	$ 46,993,203	$ 43,527,230
Expenditures	59,342,221	56,307,548	51,630,558	45,335,719	45,412,602
Excess (Deficit) of Revenues Over Expenditures	$ (109,032)	$ (1,060,555)	$ (1,830,793)	$ 1,657,484	$ (1,885,372)
Other Financing Sources (Uses):					
Operating Transfers In	$ 823,729	$ 764,259	$ 1,290,127	$ 784,064	$ 1,538,273
Operating Transfers Out	(715,372)	(2,019,176)	(1,101,138)	(424,994)	(4,278,972)
Proceeds from the Sale of Capital Assets	81,635	23,209	18,800	78,243	
Proceeds from Loan Payable	374,935	(92,486)	-	673,062	27,070
Total Other Financing Sources (Uses):	$ 564,927	$ (1,324,194)	$ 207,789	$ 1,110,375	$ (2,713,629)
Fund Balance - End of Year	$ 19,067,598	$ 18,611,703	$ 20,996,452	$ 22,619,456	$ 19,851,597

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

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency 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 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 City are required to participate in TMRS.

Benefits Provided

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

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

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

	2017	2016
Employee Deposit Rate	7%	7%
Matching Ratio (City to Employee):	2 to 1	2 to 1
Years required for vesting	5 years	5 years
Service requirement eligibility		
(expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity service credit	70% of CPI	70% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	239
Inactive employees entitles to but not yet receiving benefits	257
Active employees	579
	1,075

Contributions

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

Employees for the City were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.23% and 16.94% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were $6,102,303, and were equal to the required contributions.

Net Pension Liability

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

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

Inflation	2.50% per year
Overall payroll growth	3.50% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 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 TMRS Board of Trustees amended long-term expected rate of return on pension plan investments from 7.0% to 6.75%. Plan assets are managed on a total return basis with the emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-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 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 the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

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

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

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 statue. 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 Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Changes for the year:			
Service Cost	6,283,281	-	$ 6,283,281
Interest	8,990,600	-	8,990,600
Change in current period benefits	-	-	-
Difference between expected and actual experience	887,337	-	887,337
Changes in assumptions	-	-	-
Contributions - employer	-	5,961,496	(5,961,496)
Contributions - employee	-	2,424,270	(2,424,270)
Net investment income	-	6,574,073	(6,574,073)
Benefit payments, including refunds of employee contributions	(4,267,920)	(4,267,920)	-
Administrative expense	-	(74,212)	74,212
Other changes	-	(3,998)	3,998
Net changes	11,893,298	10,613,709	1,279,589
Balance at 12/31/2015	132,186,396	$ 97,231,338	$ 34,955,058
Balance at 12/31/2016	$ 144,079,694	$ 107,845,047	$ 36,234,647

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net position liability 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 Discount Rate (5.75%)	Current Singe Rate Assumption (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 59,393,584	$ 36,234,647	$ 17,489,742

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the City recognized pension expense of $7,853,149.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 1,011,713	$ 527,300
Changes in Actuarial Assumptions	-	288,198
Difference Between Projected and Actual Investment Earnings	4,294,595	-
Contributions Subsequent to the Measurement Date	4,707,975	-
Total	$ 10,014,283	$ 815,498

$4,707,975 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended December 31:	Net Deferred Outflows (Inflows)
2018	$ 1,488,443
2019	1,488,443
2020	1,267,484
2021	121,420
2022	125,020
Thereafter	-
Total	$ 4,490,810

Supplemental Death Benefits Fund

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

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the pension trust fund. For the year ended September 30, 2017, the City offered the supplemental death benefit to both active and retired employees.

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2017 and 2016 were $10,765 and $10,604, respectively. The City's contribution rates for the past three years are shown below

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

POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description

The City provides certain health care benefits to retired employees under a single-employer defined benefit healthcare plan (the "Plan"). The Plan does not issue separate financial statements.

The City maintains self-funded medical, prescription drug, dental, and vision coverage for eligible employees and retired employees and their dependents. All retirees are eligible to continue their health insurance coverage at the same cost that the City pays for its employees. Thus, in effect, the City is subsidizing the cost of the higher premiums for its retirees. The City also provides $7,500 in life insurance coverage for its retirees through TMRS. To be eligible for coverage after retirement, employees must be covered as a active employee in the City health program a the time of retirement, reach their 60th birthday, and have 5 years of service with the City, or have earned 20 years of TMRS service, and pay a Plan premium as set by the City for themselves and their dependents.

Funding policy

Plan members are required to pay a premium for themselves and their dependents. Currently, the premium is set at $525 per retiree and an additional premium of $485 for spouses, $450 for children, and $593 for spouse and children.

The Plan is financed on a pay-as-you-go basis.

The City's annual other post-employment benefits (OPEB) cost is based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents an expense recognition that includes normal cost and the amortization of any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan, and the City's net OPEB obligation

Annual Required Contribution	$ 1,692,481
Interest on OPEB Obligation	392,897
Adjustment to ARC	(390,352)
Annual OPEB Cost (Expense)	1,695,026
Contributions made	(54,935)
Increase (Decrease) in Net OPEB Obligation	1,640,091
Net OPEB Obligation - as of Beginning of Year	9,822,422
Net OPEB Obligation - as of End of Year	$ 11,462,513

A separate audited GAAP basis OPEB plan report is not available.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year (4.0% discount rate, and level percent of pay amortization) are as follows:

Fiscal Year Ending	Net Employer Contributions	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation Beginning	Net OPEB Obligation Ending
2015	$ 254,407	$ 1,724,767	14.75%	$ 6,904,165	$ 8,374,525
2016	246,753	1,694,650	14.56%	8,374,525	9,822,422
2017	54,935	1,695,026	3.24%	9,822,422	11,462,513

As of September 30, 2016 the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was $11,479,532, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $11,479,532. The annual covered payroll is $28,218,371 and the UAAL as a percentage of covered payroll is 40.68 percent:

<u>Actuarial methods and assumptions</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events fare into o the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subjected continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented s RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based to he substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits in force provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. the actuarial methods and assumptions used include techniques that are designed to reduce the effects o short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions:

Investment Rate of Return	4.00%
Actuarial Cost Method	Projected unit credit
Amortization Method	Level as a percentage of employee payroll
Remaining Amortization Period	30 years Open period
Asset Valuation Method	Market value
Inflation Rate	2.50% per annum
Salary Growth	3.00% per annum
Healthcare Cost Trend Rate	For 2017 through 2020, Lewis & Ellis best estimate assumptions were developed by observation and extrapolation of plan experience and industry data. Thereafter, rates developed using the baseline projection of the SoA Long-Run Medical Cost Trend Model

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF NEW BRAUNFELS, TEXAS AND COMAL AND GUADALUPE COUNTIES, TEXAS

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**GENERAL INFORMATION REGARDING THE CITY OF NEW BRAUNFELS,
COMAL AND GUADALUPE COUNTIES, TEXAS**

General Information

The City of New Braunfels, Texas (the "City") is a political subdivision of the State of Texas located on Interstate Highway 35, 33 miles northeast of San Antonio. The City operates as a home rule municipality under the laws of the State of Texas. The City's 2010 population was 57,740, and the 2015 population is 66,394. The City's 2018 estimated population is 80,000. The City serves as the county seat of Comal County. A portion of the City also lies within Guadalupe County. Tourists can enjoy local dining, shopping, recreational activities at Landa Park, river activities on Canyon Lake and Schlitterbahn Water Park, and the annual "Wurstfest" celebration.

A new Civic/Convention Center located in downtown New Braunfels has expanded the meetings market providing large and small organizations with a high tech, attractive facility.

Transportation

The City is primarily served by Interstate Highway 35 and State Highway 46. Railroads include the Union Pacific and Missouri Kansas and Texas Lines. The City's airport facility encompasses 1,000 acres and has 3 runways (5,350' x150'), 4 taxiways (50'W), and a parking ramp (300' x 2,700'). The airport runways are all asphalt with threshold lights and full runway lights. Jet fuel, aviation gas, and car rentals are available during office hours and by appointment at other times. The airport, located approximately 5 miles from the City, is reported to have an average of 71 flights per day. Many large corporations use New Braunfels Airport for corporate flights, including Mission Valley Texas Textiles and Tyson Foods of Seguin. Greyhound/Trailways Bus Lines serve the City as well as several motor freight lines.

Education

Two school districts (Comal Independent School District and New Braunfels Independent School District) enroll more than 33,000 students in 40 schools (K-12). Both school districts are recognized academically acceptable. Less than 15 miles away are three top rated colleges and technical schools: Texas Lutheran, Texas State University and Central Texas Technology Center. Ten more colleges and universities are within a 30 minute commute time.

Economy

The Comal River receives approximately 3.2 million visitors a year. A 2013 economic impact analysis found that the tourism industry accounted for approximately $531.5 million in 2013 - an increase of 13 percent from 2009. In 2013, the hospitality industry employed 5,662 direct workers and supported another 1,659 indirect workers in spinoff jobs in the community. The tourism and accommodation industry does not, however, provide a majority of the jobs in New Braunfels. Exclusive of government, the City's three largest industries in the value of goods and services provided are manufacturing, health care and social assistance, and retail trade. The governmental (school district, local, state, and federal), retail trade, health care and social assistance, accommodation and food services, and finance and insurance industries, respectively, provide the greatest number of jobs in the community.

Recreation

There are twenty-six parks totaling over 500 acres for outdoor recreation that include nature trails, playgrounds, picnic areas, Olympic and spring-fed pools, recreation center, historical area, soccer and softball fields, "tube" chute, concessions, volleyball, basketball and tennis courts. Nearby Canyon Lake (16 miles), Lake Dunlap and Lake McQueeney (5 miles east) and two rivers (Comal and Guadalupe) make boating , scuba-diving, camping, dining, tubing, rafting, kayaking, swimming, fishing available. The #1 rated waterpark – Schlitterbahn – boasts over 65-acres of water recreation.

Located in the heart of the City are Comal Springs and Landa park, a 300-acre park which includes an 18-golf course, tennis course, large picnic and playground areas, an Olympic-size swimming pool, and the largest spring-fed swimming pool in Texas. The Sundance executive golf course opened in 1995.

Natural Bridge-Caverns, the state's largest caverns, and Natural Bridge Wildlife Park are major tourist attractions located in the southern part of Coal County. Scenic drives and historic sites attract many tourists to the area. Canoeing, tubing, rafting, kayaking, and other white water sports on the Guadalupe and Comal Rivers are popular. Gruene hall, the oldest dancehall in Texas, is also located in the Greater New Braunfels area and attracts many visitors.

Canyon Lake, located twenty miles from the City, is a popular water-resort area for sailing, boating, fishing, water skiing, and scuba diving. Several parks have been established around the Lake.

Annual festivals include: the Comal County Fair and "Wurstfest". The annual "Wurstfest" is a 10-day event begins on the Friday before the first Monday in November. Average annual attendance is estimated to be 110,000 with revenues from admissions and concessions in excess of $1,000,000.

COMAL COUNTY

General Information

Comal County, Texas (the "County"), a pioneer German settlement, was created in 1846 from Bexar, Gonzales and Travis Counties, Texas. This scenic south central Texas county was named after the Comal Springs and the Comal River that flow through New Braunfels, Texas, the County seat.

The County has an area of 567 square miles. There are six other cities within Comal County, the City of Garden Ridge, the City of Schertz, the City of Selma, the City of Fair Oaks Ranch and the City of Bulverde.

Commercial

The County's location between San Antonio and Austin provides opportunities for commuters to live in the county and work in one of the major cities. During 2013, 366 new home sites became available in subdivisions in the unincorporated areas of Comal County.

The County has continued to enjoy a prosperous economy. The major sectors of Comal County's economy, manufacturing, tourism, distribution and real estate continue to grow.

Major Employers

Employer	Number of Employees
Comal ISD	2,800
Schlitterbahn Water Park	1,689
Wal-Mart Distribution Center	1,269
New Braunfels ISD	1,159
Sysco	808
Hunter Industries/Colorado Materials, Inc.	730
Comal County	659
City of New Braunfels	624
HD Supply	588
IBEX Corporation	559

Labor Force Statistics (1)

	2018 (2)	2017 (3)	2016 (3)	2015 (3)	2014 (3)
Civilian Labor Force	68,109	66,826	65,377	61,841	59,850
Total Employed	66,022	64,580	63,013	59,574	57,138
Total Unemployed	2,087	2,246	2,364	2,267	2,712
%Unemployed	3.1%	3.4%	3.6%	3.7%	4.5%
% Unemployed (Texas)	3.7%	4.3%	4.6%	4.4%	5.1%
% Unemployed (United States)	3.6%	4.4%	4.9%	5.3%	6.2%

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

GUADALUPE COUNTY

Guadalupe County, Texas (the "County") located in south central Texas, is bounded by Comal, Hays, Caldwell, Gonzales, Wilson, and Bexar counties. The County seat is the City of Seguin, Texas. Guadalupe County was created from Gonzales and Bexar counties and was organized on July 13, 1846. The County takes its name from the Guadalupe River, which Alonso de Leon named in 1689 in honor of the Lady of Guadalupe depicted on his standard.

The County is a component of the "San Antonio Area Metropolitan Statistical Area" (MSA) and covers an area of 715 square miles. The County is traversed by Interstate Highway 35 and Highway 10 (east to west). US Highway 90 and US Highway 90A both branch off Interstate Highway 10 in Seguin and continue eastward to the county line toward Luling and Gonzales. Additionally, the County has two major state highways, State Highway 46 and State Highway 123 that both bisect the County (north to south). Recently completed is State Highway 130, a toll road, which is meant to divert traffic on Interstate Highway 35 around Austin. State Highway 130 begins in Georgetown and travels east of Austin, coming into Guadalupe County on the northeast boundary and connecting to Interstate Highway 10 east of Seguin.

Major commercial construction projects, such as a new Caterpillar plant, a major expansion project by Guadalupe Regional Medical Center, and a new warehouse distribution center by Amazon, significantly contributed to the lower unemployment rate.

The Seguin Independent School District, accredited by the Texas Education Agency, is administered by a board comprised of elected citizens who serve in their respective positions without compensation. In addition to the basic curriculum prescribed by the state for grades K through 12, the District offers a wide range of electives. There are extensive special education and vocational education programs, as well as provisions for the accelerated students.

Texas Lutheran University ("TLU"), a fully accredited four-year co-educational senior liberal arts institution of higher learning, is located in Seguin. TLU's 1,400 students (50-50, male/female) come from 36 states and seven foreign countries. The 15:1 student-teacher ratio allows for small classes. TLU has been listed as one of the top ten small colleges in the southern United States by the U.S. News and World Report survey of college presidents for 15 out of 16 years. TLU is a central part of life in Seguin and the university pumps an estimated $50 million in the Seguin economy annually.

Other educational facilities nearby include: Texas State University at San Marcos; University of Texas at Austin; and the San Antonio institutions of San Antonio College, Trinity University, St. Mary's University, University of Texas at San Antonio, The University of the Incarnate Word, Our Lady of the Lake University, and the University of Texas Health Science Center composed of schools of Dentistry, Nursing, Allied health Sciences and graduate school of Biomedical Sciences.

Labor Force Statistics (1)

	2018 (2)	2017 (3)	2016 (3)	2015 (3)	2014 (3)
Civilian Labor Force	78,828	77,510	75,830	72,882	71,582
Total Employed	76,491	74,946	73,109	70,313	68,488
Total Unemployed	2,337	2,564	2,721	2,569	3,094
%Unemployed	3.0%	3.3%	3.6%	3.5%	4.3%
% Unemployed (Texas)	3.7%	4.3%	4.6%	4.4%	5.1%
% Unemployed (United States)	3.6%	4.4%	4.9%	5.3%	6.2%

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

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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McCALL
PARKHURST & HORTON

[*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*.]

CITY OF NEW BRAUNFELS, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018 IN THE AGGREGATE PRINCIPAL AMOUNT OF $8,120,000

AS BOND COUNSEL FOR THE CITY OF NEW BRAUNFELS, TEXAS (the "City") of the certificates of obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates specified in the text of the Certificates and in the Ordinance of the City adopted on September 24, 2018 authorizing the issuance of the Certificates (the "Ordinance").

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Certificates have been authorized, issued and delivered in accordance with law; and that said Certificates, except the enforceability thereof as may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, on all taxable property within the City and the Certificates are additionally secured by and payable from a limited pledge of surplus revenue of the City's solid waste system all as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners thereof 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

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F 512.472.0871

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Dallas, Texas 75201
T 214.754.9200
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Two Allen Center
1200 Smith Street, Suite 1550
Houston, Texas 77002
T 713.980.0500
F 713.980.0510

700 N. St. Mary's Street
Suite 1525
San Antonio, Texas 78205
T 210.225.2800
F 210.225.2984

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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 by the Issuer 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 upon a failure by the Issuer 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. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. 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 City as the taxpayer. We observe that the City 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 City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of the City and the assessed valuation of taxable property within the City and the sufficiency of the revenues pledged by the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

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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APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of New Braunfels Utilities, a discretely presented component unit, which financial statements reflect total assets of $541,639,549 and total revenues of $163,224,375 for the fiscal year. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for New Braunfels Utilities is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are

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appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial 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 City's internal control over financial reporting and compliance.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 18, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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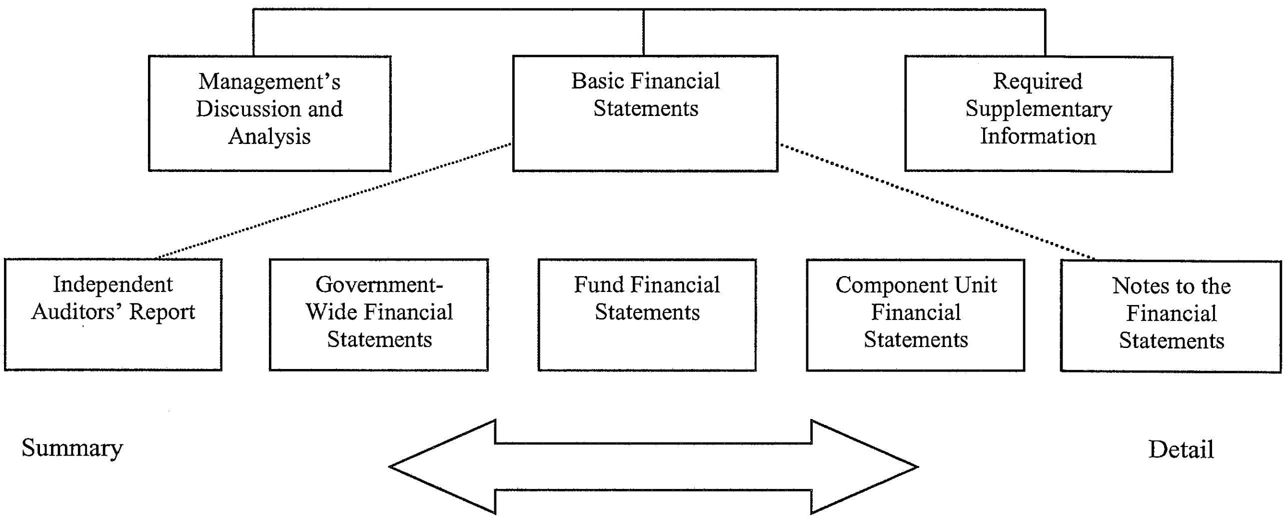
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of New Braunfels, Texas (the "City") for the year ending September 30, 2017. The analysis is based on currently known facts, decisions,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

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



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

<u>Government-Wide Statements</u>

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

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

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

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

1. *Governmental Activities* – The City's tax-supported services are reported here including police and fire protection (public safety), streets and drainage (public works), public improvements, parks and recreation, planning and development, and general administrative services (general government). Interest payments on the City's tax-supported debt are also reported here. Property tax, sales tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.

2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's airport, solid waste, golf course, and civic center services, as well as interest payments on debt issued for equipment financing.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate industrial development corporation and a legally separate utilities entity for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Tax Increment Reinvestment Zone No. 1 and the New Braunfels Development Authority, although also legally separate, function for all practical purposes as departments of the City and, therefore, have been included as an integral part of the primary government.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains 35 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, hotel/motel tax, debt service, and general obligation funds, which are considered to be major funds for reporting purposes.

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

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, solid waste, golf course, and civic center services. The proprietary fund financial statements provide separate information for the airport, solid waste, golf course, and civic center operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

The City also uses an internal service fund to account for its self-funded health plan. This internal service fund has been included within governmental activities in the government-wide financial statements.

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general and hotel/motel tax funds, a schedule of changes in net pension liability and related ratios for the Texas Municipal Retirement System (TMRS), schedule of contributions for TMRS, and schedule of funding progress for post employment healthcare benefits. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $41,110,396 as of September 30, 2017 for the primary government. This compares with $35,754,559 from the prior fiscal year. The largest portion of the City's net position, $36,495,164, reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Current and other assets	$ 85,349,560	$ 98,309,547	$ 3,742,645	$ 3,768,549	$ 89,092,205	$ 102,078,096
Capital assets, net	165,549,656	153,097,649	31,206,074	33,856,285	196,755,730	186,953,934
Total Assets	250,899,216	251,407,196	34,948,719	37,624,834	285,847,935	289,032,030
Deferred charge on refunding	2,114,149	1,746,049	-	-	2,114,149	1,746,049
Deferred outflows - pensions	9,083,955	9,447,750	930,328	965,248	10,014,283	10,412,998
Total Deferred Outflows of Resources	11,198,104	11,193,799	930,328	965,248	12,128,432	12,159,047
Long-term liabilities	240,027,245	247,942,045	4,914,296	4,835,394	244,941,541	252,777,439
Other liabilities	10,499,128	11,520,747	609,804	429,739	11,108,932	11,950,486
Total Liabilities	250,526,373	259,462,792	5,524,100	5,265,133	256,050,473	264,727,925
Deferred inflows - pensions	736,840	641,105	78,658	67,488	815,498	708,593
Total Deferred Inflows of Resources	736,840	641,105	78,658	67,488	815,498	708,593
Net Position:						
Net investment in capital assets	5,470,679	2,127,016	31,024,485	33,493,108	36,495,164	35,620,124
Restricted	21,268,918	16,400,436	-	-	21,268,918	16,400,436
Unrestricted	(15,905,490)	(16,030,354)	(748,196)	(235,647)	(16,653,686)	(16,266,001)
Total Net Position	$ 10,834,107	$ 2,497,098	$ 30,276,289	$ 33,257,461	$ 41,110,396	$ 35,754,559

A portion of the primary government's net position, $21,268,918, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of $16,653,686.

The City's total net position increased by $5,355,837 during the current fiscal year. This included an increase of $8,337,009 in the governmental activities, which primarily was a result of an increase tax revenues, along with capital grants and contributions. Business-type activities net position decreased by $2,981,172, which was primarily a result of decreased capital grants and contributions revenue.

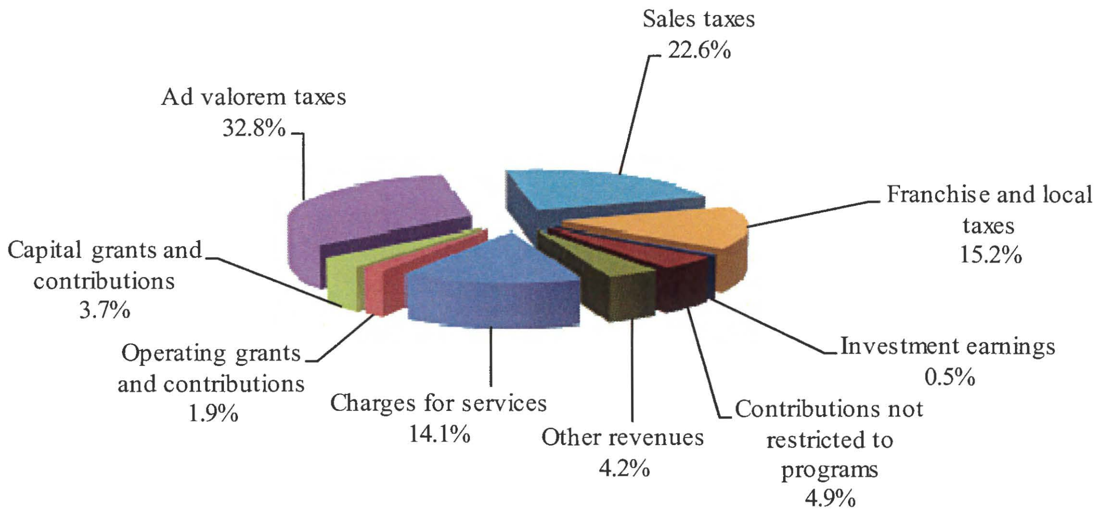
Statement of Activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Revenues						
Program revenues:						
Charges for services	$ 13,152,170	$ 13,468,658	$ 12,948,685	$ 12,279,199	$ 26,100,855	$ 25,747,857
Operating grants and contributions	1,758,775	2,377,394	396,551	50,000	2,155,326	2,427,394
Capital grants and contributions	3,459,563	-	-	2,263,413	3,459,563	2,263,413
General revenues:						
Ad valorem taxes	30,499,340	25,823,173	-	-	30,499,340	25,823,173
Sales taxes	21,007,931	19,076,944	-	-	21,007,931	19,076,944
Franchise and local taxes	14,099,076	13,142,275	-	-	14,099,076	13,142,275
Investment earnings	471,299	241,907	17,184	7,801	488,483	249,708
Contributions not restricted to programs	4,569,922	2,892,343	-		4,569,922	2,892,343
Other revenues	3,948,192	4,989,704	320,282	82,876	4,268,474	5,072,580
Total Revenues	92,966,268	82,012,398	13,682,702	14,683,289	106,648,970	96,695,687
Expenses						
General government	11,764,095	21,964,759	-	-	11,764,095	21,964,759
Finance and tax	1,268,615	690,463	-	-	1,268,615	690,463
Planning and enviromental development	4,526,748	2,771,682	-	-	4,526,748	2,771,682
Public safety	43,327,850	30,029,933	-	-	43,327,850	30,029,933
Public works	11,857,970	15,313,473	-	-	11,857,970	15,313,473
Parks and recreation	6,356,643	4,597,430	-	-	6,356,643	4,597,430
Civic/convention center	-	49,223	979,636	885,573	979,636	934,796
Library	2,664,469	1,660,092	-	-	2,664,469	1,660,092
Interest and fiscal agent fees	5,752,596	6,757,332	-	-	5,752,596	6,757,332
Airport	15,252	1,492,594	3,220,532	2,968,294	3,235,784	4,460,888
Solid waste	-	-	7,720,622	7,270,906	7,720,622	7,270,906
Golf course	-	-	1,838,105	1,938,245	1,838,105	1,938,245
Total Expenses	87,534,238	85,326,981	13,758,895	13,063,018	101,293,133	98,389,999
Increase (Decrease) in Net Position Before Transfers	5,432,030	(3,314,583)	(76,193)	1,620,271	5,355,837	(1,694,312)
Transfers	2,904,979	3,436,008	(2,904,979)	(3,436,008)	-	-
Change in Net Position	8,337,009	121,425	(2,981,172)	(1,815,737)	5,355,837	(1,694,312)
Beginning net position	2,497,098	2,375,673	33,257,461	35,073,198	35,754,559	37,448,871
Ending Net Position	$ 10,834,107	$ 2,497,098	$ 30,276,289	$ 33,257,461	$ 41,110,396	$ 35,754,559

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

Governmental Activities - Revenues

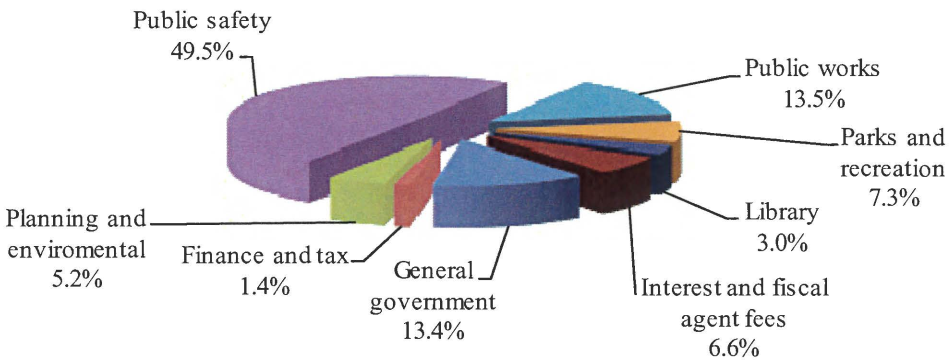


For the year ended September 30, 2017, revenues from governmental activities totaled $89,506,705, excluding $3,459,563 in capital grants and contributions, compared with $82,012,398 in the prior year. This $7,494,307 increase occurred primarily as the result of $1,930,987 in additional sales tax revenue, $4,676,167 in additional property tax revenue, and $1,677,579 in contributions not restricted to programs, offset by slight increases/decreases in other revenues.

Sales tax revenue increased as a result of a boost in sales throughout the City. Property tax revenue increased due to the rise of property valuations. The increase in contributions not restricted to programs increased mostly due to increases in roadway impact fees.

Capital grants and contributions increased for governmental activities by $3,459,563 due to an increase in contributions from the Industrial Development Corporation.

Governmental Activities - Expenses

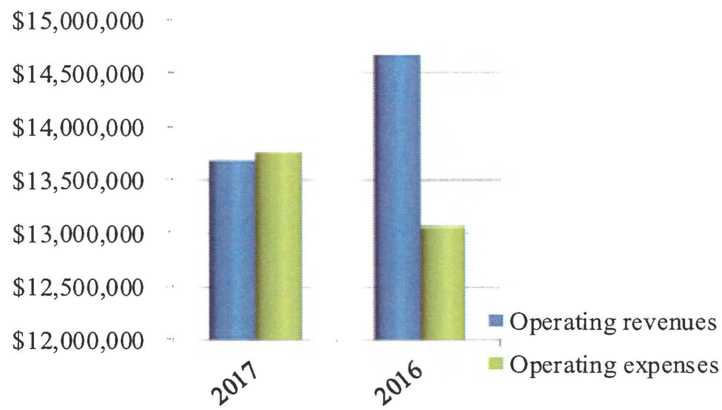


Governmental expenses increased by $2,207,257, or three percent. This increase is primarily due to increases in expenses related to public safety, planning and environmental development, and parks and recreation of $13,297,917, $1,755,066, and $1,759,213, respectively; offset by decreases in general government, public works, and interest expense of $10,200,664, $3,455,503, and $1,004,736, respectively.

The increase in public safety expenses can be partially attributed to increase in wages due to more officers and public safety officials, as well as an increase in expenses related to the City's pension plan. The increase in planning and environmental development, as well as parks and recreation, are primarily due to planned projects to meet the needs of the City. The decreases in general government can be partially attributed to a decrease in consulting service expenses, along with less grant-related expenses. Expenses in public works decreased mostly due to more capitalized costs incurred in the current year related to ongoing construction in progress. The change in interest expense is primarily a result of amortized charges related to the City's long-term debt.

Business-type activities are shown comparing operating costs to revenue generated by related services.

Business-Type Activities - Revenues and Expenses



Overall, business-type activity revenues decreased by $1,000,587 from the prior period, including a $2,263,413 decline in capital grants due to fewer contributions of assets from developers, offset by an increase in charges for services of $669,486. The latter increase is mostly due to increased fuel sales in the airport fund and increased collection fees in the solid waste fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of $74,948,434. Of this, $28,920 is nonspendable, $50,200,343 is restricted for various purposes, $5,652,169 is committed, $1,367,650 is assigned, and $17,699,352 is unassigned.

There was a decrease in the combined fund balance of $13,374,436 over the prior year. This is largely attributable to increased capital outlay expenditures reported in the general obligations fund.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was $17,699,352, while total fund balance reached $19,067,647. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 30 percent of total general fund expenditures, while total fund balance represents 32 percent of that same amount.

The general fund reported an ending fund balance this year of $19,067,647. It is important to note that this fund balance includes all of the fund balance in the general fund, equipment replacement fund, and the facilities maintenance fund. The equipment replacement fund contributes $1,367,650 to this stated fund balance. This fund allows the City to account for equipment replacement and improvements in a separate fund and not include these activities in the general operating fund. Fund balance in the general fund increased by $455,945, net of transfers to other funds. This increase can be partially attributed to the increase in tax revenue, which was offset by increases in expenditures across all functions.

The hotel/motel tax fund experienced an increase of $278,594, which was a result of the net effect of an increase in tax revenues, along with a decrease in overall expenditures.

Fund balance in the debt service fund experienced an increase of $162,128, most of which was a result of a transfer from other funds to assist with principal and interest payments, as well as the net effect of the long-term refunding debt issuance.

The fund balance in the general obligation capital projects fund had a decrease in fund balance of $17,596,924, which was primarily a result of ongoing costs related to the City's recreation center.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The amended budget included a planned decrease in fund balance in the amount of $945,680. This budgeted decrease was largely attributable to the use of $962,700 of fund balance for equipment replacement. The actual fund balance for the year increased by $455,945. Actual revenues exceeded the amended budget by $258,021 spread across various revenue lines. The largest positive variances were in licenses and permits and fines and forfeitures, which were offset by negative variances for sales and franchise taxes.

Actual expenditures were under the amended budget by $838,496. The majority of this positive variance from the amended budget was a result of under runs in projected expenditures across various departments.

CAPITAL ASSETS

At the end of fiscal year 2017, the City's governmental activities had invested $165,549,656 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of $12,452,007.

Major capital asset events during the year included the following:

- Various land acquisitions in the amount of $2,871,593
- Paved surface improvements, including the Downtown Improvements project, in the amount of $1,936,417
- Construction in progress of the recreation center in the amount of $13,227,334
- Completion of Morningside Park Development in the amount of $1,306,930
- Various City vehicles in the amount of $1,680,218

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

LONG-TERM DEBT

At the end of the current year, the City had total general obligation bonds and certificates of obligation outstanding of $154,335,000. Of this amount, $91,205,000 was general obligation debt and $63,130,000 was certificates of obligation. This includes an increase for a long-term refunding debt issuance of $5,255,000.

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

The City's bonds presently carry an AA rating from Standard and Poor's and an Aa2 rating from Moody's Investor Service.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City reduced its total ad valorem property tax rate from $0.425614 per $100 of valuation in fiscal year (FY) 2005-06 to $0.409862. That rate was maintained through FY 2010-11. During that time, the debt service tax rate increased to fully fund all debt service payments while the general fund portion of the rate decreased by an equal amount. $0.10763 cents in tax rate shifted from debt service to the general fund in that period. Property values for the ten years prior to FY 2009-10 showed an average annual growth rate of 11.7 percent. With the economic downturn, this robust growth came to a rather abrupt end. FY 2009-10 had growth in values of 2.9 percent and FY 2010-11 values declined by 0.9 percent overall, then rebounded slightly in FY 2011-12, showing a 2.2 percent growth. In FY 2011-12, the City increased the overall tax rate for the first time since FY 2005-06 with a $0.0385 increase, all in the debt service rate. The general fund tax rate was held at $0.261362. For FY 2013-14, the City saw property value increases of 5.5 percent and again increased the overall tax rate to $0.49823, increasing both the debt service component (by $0.021371) and the general fund component (by $0.009515). For FY 2014-15 adopted budget, the tax rate was held flat. This was achieved due to a 11.1 percent increase in taxable assessed valuation. For the FY 2015-16 budget, the tax rate was once again held flat, driven in large part due to an even higher increase in freeze adjusted taxable assessed valuation in the amount of 14.8 percent. For the FY 2016-17 budget, the tax rate was held flat, driven in large part to an 9.2 percent increase in freeze adjusted taxable assessed valuation. The FY 2017-18 budgeted tax rate actually decreased to $0.4822, again due to a 6.6 percent increase in freeze adjusted taxable assessed value.

The City of New Braunfels sits in an excellent geographic position – on the main transportation corridor between Austin and San Antonio. It attracts businesses and residents interested in living in a smaller city. However, it offers the advantage of proximity to big city attractions and opportunities. This positioning is contributing to the City's strong population and economic growth. This resulted in the City's revenues and tax base remaining stable, even through the recession; revenues have begun to once again show growth.

The City, prior to FY 2008-09, enjoyed a very robust, high growth period. Population during that time grew at an average annual rate of 5.4 percent. The City, during that same time frame, attracted some major business generators, affecting the City's property and sales tax revenues. Ashley Furniture located a distribution center in the City and Home Depot sited a new contractor sales facility within the City. Both these developments had a very positive impact on the City's sales tax revenue. More recently, a million plus square foot retail facility opened the first phase of that development. The City created a tax increment financing zone (TIRZ) to provide economic development assistance to that development. A pool manufacturer moved its headquarters to the City and another major mixed use (retail, residential and office space) project began development. The retail developments were impacted by the economic downturn; however, the projections are for the ultimate build out to be achieved, but in a longer time frame than originally planned. The development now includes a major department store and a hospital complex, a movie theater, shops, restaurants, multi-family homes and single-family home developments.

Sales tax revenue declined in FY 2008-09 for the first time in eight years. However, sales tax rebounded in FY 2009-10 to finish the year at 4.5 percent above the prior twelve months and FY 2010-11 finished at 7.6 percent above FY 2009-10. FY 2011-12 and FY 2012-13 saw a continuation of the positive trend, with sales tax growing 10.2 percent and 12.6 percent, respectively. FY 2013-14 saw 10.3 percent overall growth. In FY 2014-15, sales tax revenue actually decreased by 0.5 percent. This was entirely driven by the loss of sales tax from a furniture distribution company within the City limits, stemming from new state legislation. Effective September 2014, sales tax allocation was changed to the point of sale as opposed to point of distribution. In FY 2016-17, sales tax grew 4.8 percent. It is predicted to grow 4 percent for FY 2017-18.

The City weathered the economic downturn by holding positions open, delaying salary increases, and postponing expenditures whenever possible. No layoffs were required to keep the City's budget balanced. In FY 2012-13, revenues actually exceeded budget estimates in some areas, particularly sales tax. This is a very positive sign for the City's economy and for City revenues. The FY 2013-14 adopted budget focused on and succeeded in bringing recurring expenditures in line with recurring revenues. This was achieved by funding very few new positions in the general fund, minimal salary increases and suspending the City's vehicle replacement program (both contributions into the fund and current year purchases of vehicles). In FY 2014-15, several challenges were addressed – the loss of sales tax revenue from an economic development agreement (impacted by legislative changes); the vehicle replacement program can be reinstituted; addressing salaries City-wide to remain market competitive; and meeting the continued increasing demand for services. In FY 2014-15, revenue growth afforded the opportunity to fund compensation increases for all City employees. The compensation increases in FY 2015-16 are part of a compensation plan update. The final phase of the 2013 compensation study will be implemented in FY 2016-17. The FY 2015-16 budget also included a total of 15 new positions to support existing and growing demands for services. In FY 2016-17, the City began work on the next phase of the compensation plan study and added positions to support infrastructure, public safety, growth and development as well as administration (IT and Finance). In the FY 2017-18 budget, 18 new positions were included to support public safety, infrastructure, growth and development and administration.

General fund operating expenditures and transfers out were $58.8 million in FY 2016-17 (this amount reflects only the general fund, not the equipment replacement and facilities maintenance funds). The general fund (stand alone) expenditure budget for FY 2016-17 is $59.7 million; the increase is driven by the programs described above i.e. compensation plan implementation and additional positions

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors with a general overview of the finances of the City. For questions concerning this report, separately issued statements for New Braunfels Utilities or the Housing Authority, or for additional financial information, contact the City's Finance Department, 550 Landa Street, New Braunfels, TX, 78130; telephone 830-221-4000; or for general City information, visit the City's website at www.nbtexas.org.

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BASIC FINANCIAL STATEMENTS

CITY OF NEW BRAUNFELS, TEXAS

STATEMENT OF NET POSITION (page 1 of 2)

September 30, 2017

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total**
Assets			
Cash and equity in pooled cash and investments	$ 66,748,552	$ 2,704,763	$ 69,453,315
Pooled and temporary investments	8,936,858	-	8,936,858
Receivables, net	9,229,941	179,620	9,409,561
Due from other governments	23,025	-	23,025
Internal balances	(791,720)	791,720	-
Inventories	645	66,542	67,187
Prepaid items	-	-	-
Other current assets	-	-	-
Generation and transmission cost recovery under collection	-	-	-
Restricted assets			
Cash and cash equivalents	1,202,259	-	1,202,259
Investments	-	-	-
	85,349,560	3,742,645	89,092,205
Capital assets:			
Nondepreciable	51,010,441	2,540,961	53,551,402
Depreciable, net	114,539,215	28,665,113	143,204,328
Investments:			
Restricted	-	-	-
Unrestricted	-	-	-
Other noncurrent assets	-	-	-
Deposit - Headwaters at the Comal - restricted	-	-	-
	165,549,656	31,206,074	196,755,730
Total Assets	250,899,216	34,948,719	285,847,935
Deferred Outflows of Resources			
Deferred charge on refunding	2,114,149	-	2,114,149
Deferred outflows - pensions	9,083,955	930,328	10,014,283
Total Deferred Outflows of Resources	11,198,104	930,328	12,128,432
Liabilities			
Accounts payable	8,021,106	496,608	8,517,714
Deposit payable	-	113,196	113,196
Accrued expenses payable	2,478,022	-	2,478,022
	10,499,128	609,804	11,108,932
Noncurrent liabilities:			
Due within one year:			
Bonds payable	10,125,000	-	10,125,000
Loan payable	66,788	181,589	248,377
Capital lease payable	260,585	-	260,585
Accrued compensated absences	5,438,135	255,239	5,693,374
Due in more than one year:			
Bonds payable	179,200,674	-	179,200,674
Loan payable	400,725	-	400,725
Capital lease payable	683,049	-	683,049
Net pension liability	32,836,623	3,398,024	36,234,647
Net OPEB obligation	10,411,429	1,051,084	11,462,513
Accrued compensated absences	604,237	28,360	632,597
Other noncurrent liability	-	-	-
	240,027,245	4,914,296	244,941,541
Total Liabilities	250,526,373	5,524,100	256,050,473

Component Units	
Industrial Development Corporation	New Braunfels Utilities
$ 13,090,161	$ 12,169,838
-	19,178,586
1,304,520	20,190,883
-	-
-	-
-	2,255,188
-	459,937
2,455	2,461,901
-	1,278,642
-	34,638,008
-	2,000,000
14,397,136	94,632,983
-	55,441,839
-	367,697,704
-	850,000
-	17,569,531
-	3,031,819
-	2,415,673
-	447,006,566
14,397,136	541,639,549
-	-
-	4,037,747
-	4,037,747
255,858	23,934,386
-	5,328,677
5,055	338,558
260,913	29,601,621
-	2,320,000
-	-
-	-
-	859,048
-	112,227,558
-	-
-	-
-	9,148,546
-	-
-	660,757
-	189,325
-	125,405,234
260,913	155,006,855

CITY OF NEW BRAUNFELS, TEXAS

STATEMENT OF NET POSITION (page 2 of 2)

September 30, 2017

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total**
Deferred Inflows of Resources			
Deferred inflows - pensions	$ 736,840	$ 78,658	$ 815,498
Net Position			
Net investment in capital assets	5,470,679	31,024,485	36,495,164
Restricted for:			
Debt service	1,877,188	-	1,877,188
Capital projects	11,193,814	-	11,193,814
Cemetery perpetual care (nonexpendable)	28,275	-	28,275
Grants	412,192	-	412,192
Impact fees	-	-	-
Municipal court	351,399	-	351,399
Library	1,134	-	1,134
Public safety	322,722	-	322,722
Governmental programming	233,889	-	233,889
Tourism	2,237,261	-	2,237,261
Other special projects	4,611,044	-	4,611,044
Deposit - Headwaters at the Comal	-	-	-
Unrestricted	(15,905,490)	(748,196)	(16,653,686)
Total Net Position	$ 10,834,107	$ 30,276,289	$ 41,110,396

See Notes to Financial Statements.

Component Units	
Industrial Development Corporation	New Braunfels Utilities
$ -	$ 619,023
-	338,420,078
-	210,473
-	-
-	-
-	-
-	5,764,334
-	-
-	-
-	-
-	-
-	-
-	-
-	2,415,673
14,136,223	43,240,860
$ 14,136,223	$ 390,051,418

CITY OF NEW BRAUNFELS, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental Activities				
General government	$ 11,764,095	$ 163,630	$ 218,634	$ 3,403,647
Finance and tax	1,268,615	-	-	-
Planning and environmental	4,526,748	-	634,956	-
Public safety	43,327,850	6,502,791	651,208	-
Public works	11,857,970	4,162,918	253,977	55,916
Parks and recreation	6,356,643	2,226,247	-	-
Library	2,664,469	96,584	-	-
Airport	15,252	-	-	-
Interest and fiscal agent fees	5,752,596	-	-	-
Total Governmental Activities	87,534,238	13,152,170	1,758,775	3,459,563
Business-Type Activities				
Airport	3,220,532	2,398,310	50,000	-
Solid waste	7,720,622	8,664,002	-	-
Golf course	1,838,105	1,436,493	346,551	-
Civic center	979,636	449,880	-	-
Total Business-Type Activities	13,758,895	12,948,685	396,551	-
Total Primary Government	$ 101,293,133	$ 26,100,855	$ 2,155,326	$ 3,459,563
Component Units				
Industrial Development Corporation	$ 8,003,915	$ -	$ -	$ -
New Braunfels Utilities	137,027,636	132,827,046	-	29,780,326
Total Component Units	$ 145,031,551	$ 132,827,046	$ -	$ 29,780,326

General Revenues and Transfers:

Taxes

Property

Sales

Hotel/motel occupancy

Franchise

Mixed beverages

Investment income

Contributions not restricted to programs

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Industrial Development Corporation	New Braunfels Utilities
$ (7,978,184)	$ -	$ (7,978,184)	$ -	$ -
(1,268,615)	-	(1,268,615)	-	-
(3,891,792)	-	(3,891,792)	-	-
(36,173,851)	-	(36,173,851)	-	-
(7,385,159)	-	(7,385,159)	-	-
(4,130,396)	-	(4,130,396)	-	-
(2,567,885)	-	(2,567,885)	-	-
(15,252)	-	(15,252)	-	-
(5,752,596)	-	(5,752,596)	-	-
(69,163,730)	-	(69,163,730)	-	-
-	(772,222)	(772,222)	-	-
-	943,380	943,380	-	-
-	(55,061)	(55,061)	-	-
-	(529,756)	(529,756)	-	-
-	(413,659)	(413,659)	-	-
(69,163,730)	(413,659)	(69,577,389)	-	-
-	-	-	(8,003,915)	-
-	-	-	-	25,579,736
-	-	-	(8,003,915)	25,579,736
30,499,340	-	30,499,340	-	-
21,007,931	-	21,007,931	6,204,062	-
3,994,002	-	3,994,002	-	-
9,589,598	-	9,589,598	-	-
515,476	-	515,476	-	-
471,299	17,184	488,483	89,188	617,003
4,569,922	-	4,569,922	-	-
3,948,192	320,282	4,268,474	202,217	-
2,904,979	(2,904,979)	-	-	-
77,500,739	(2,567,513)	74,933,226	6,495,467	617,003
8,337,009	(2,981,172)	5,355,837	(1,508,448)	26,196,739
2,497,098	33,257,461	35,754,559	15,644,671	363,854,679
$ 10,834,107	$ 30,276,289	$ 41,110,396	$ 14,136,223	$ 390,051,418

CITY OF NEW BRAUNFELS, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2017

	General	Hotel/Motel Tax	Debt Service	General Obligations
Assets				
Cash and equity in pooled cash and investments	$ 16,753,249	$ 2,100,109	$ 1,766,860	$ 25,830,119
Investments	-	-	-	8,936,858
Receivables, net of allowance:				
Taxes	275,123	164,656	212,935	-
Accounts	6,092,224	648,816	105,483	-
Due from other governments	15,304	-	7,721	-
Due from other funds	1,298,090	-	-	-
Inventory	645	-	-	-
Restricted cash	-	-	-	-
Total Assets	$ 24,434,635	$ 2,913,581	$ 2,092,999	$ 34,766,977
Liabilities				
Accounts payable	$ 4,272,125	$ 676,320	$ 2,876	$ 2,590,313
Due to other funds	-	-	-	8,320,025
Accrued wages payable	819,740	-	-	-
Total Liabilities	5,091,865	676,320	2,876	10,910,338
Deferred Inflows of Resources				
Unavailable revenue - property taxes	275,123	-	212,935	-
Fund Balances				
Nonspendable	645	-	-	-
Restricted	-	2,237,261	1,877,188	23,856,639
Committed	-	-	-	-
Assigned	1,367,650	-	-	-
Unassigned	17,699,352	-	-	-
Total Fund Balances	19,067,647	2,237,261	1,877,188	23,856,639
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 24,434,635	$ 2,913,581	$ 2,092,999	$ 34,766,977

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
$ 20,277,793	$ 66,728,130
-	8,936,858
-	652,714
1,678,130	8,524,653
-	23,025
6,485,069	7,783,159
-	645
1,202,259	1,202,259
$ 29,643,251	$ 93,851,443
$ 479,472	$ 8,021,106
1,254,080	9,574,105
-	819,740
1,733,552	18,414,951
-	488,058
28,275	28,920
22,229,255	50,200,343
5,652,169	5,652,169
-	1,367,650
-	17,699,352
27,909,699	74,948,434
$ 29,643,251	$ 93,851,443

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CITY OF NEW BRAUNFELS, TEXAS

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

September 30, 2017

Total fund balances for governmental funds		$	74,948,434
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.			
Capital assets - nondepreciable	51,010,441		
Capital assets - depreciable	114,539,215		
			165,549,656
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.			488,058
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.			
Accrued interest	(1,261,099)		
Noncurrent liabilities due in one year	(10,125,000)		
Noncurrent liabilities due in more than one year	(168,535,000)		
			(179,921,099)
Premium on bond issuance and deferred loss on bond refunding are recorded as other financing sources and uses in the fund financial statements, but are capitalized and amortized in the government-wide financial statement over the life of the bond.			
Premiums	(10,665,674)		
Deferred charge on refunding	2,114,149		
			(8,551,525)
Net pension liability and other postemployment benefit obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds balance sheet			
Net pension liability	(32,836,623)		
Net OPEB obligation	(10,411,429)		
			(43,248,052)
Deferred outflows and inflows of resources related to the net pension liability are not reported in the funds.			
Deferred outflows - pensions	9,083,955		
Deferred inflows - pensions	(736,840)		
			8,347,115
Accrued liabilities for compensated absences are not due and payable in the current period and, therefore, have not been included in the fund financial statements.			(6,042,372)
Loans payable and capital leases are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.			(1,411,147)
The City uses internal service funds to charge the costs of certain activites to individual funds. Assets and liabilities of the internal service funds are included in governmental activities.			675,039
Net Position of Governmental Activities		$	10,834,107

See Notes to Financial Statements.

City of New Braunfels, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	General	Hotel/Motel Tax	Debt Service	General Obligations
Revenues				
Taxes	$ 45,754,035	$ 3,994,002	$ 12,434,498	$ -
Licenses and permits	3,935,381	-	-	-
Intergovernmental	218,634	-	-	-
Fines and forfeitures	1,674,452	-	-	-
Interest	98,450	11,296	2,770	228,448
Parks and recreation	1,335,326	-	-	-
Miscellaneous	2,073,838	50	-	-
Other contributions	-	-	1,683,081	-
Charges for services	4,143,073	-	-	-
Total Revenues	59,233,189	4,005,348	14,120,349	228,448
Expenditures				
Current:				
General government	7,682,485	2,737,859	-	-
Finances and tax	1,011,213	-	-	-
Planning and environmental	3,179,607	-	-	-
Public safety	33,600,032	-	-	-
Public works	6,440,684	-	-	19,325,372
Parks and recreation	5,071,756	-	-	-
Library	2,082,414	-	-	-
Airport	-	-	-	-
Debt Service:				
Principal	255,294	-	9,065,000	-
Interest	18,736	-	6,389,446	-
Bond issurance costs and fees	-	-	97,345	-
Total Expenditures	59,342,221	2,737,859	15,551,791	19,325,372
Excess (Deficiency) of Revenues Over (Under) Expenditures	(109,032)	1,267,489	(1,431,442)	(19,096,924)
Other Financing Sources (Uses)				
Transfers in	823,729	-	1,503,547	1,500,000
Transfers (out)	(715,372)	(988,895)	-	-
Sale of capital assets	81,685	-	-	-
Refunding bonds issued	-	-	5,255,000	-
Capital lease	374,935	-	-	-
Payments to escrow agent for refunding	-	-	(5,164,977)	-
Total Other Financing Sources (Uses)	564,977	(988,895)	1,593,570	1,500,000
Net Change in Fund Balances	455,945	278,594	162,128	(17,596,924)
Beginning fund balances	18,611,702	1,958,667	1,715,060	41,453,563
Ending Fund Balances	$ 19,067,647	$ 2,237,261	$ 1,877,188	$ 23,856,639

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
$ 3,552,435	$ 65,734,970
8,175	3,943,556
1,540,141	1,758,775
250,433	1,924,885
127,330	468,294
880,776	2,216,102
1,716,713	3,790,601
2,886,841	4,569,922
924,554	5,067,627
11,887,398	89,474,732
1,173,924	11,594,268
-	1,011,213
615,897	3,795,504
1,478,410	35,078,442
3,198,640	28,964,696
402,129	5,473,885
53,918	2,136,332
273	273
1,230,000	10,550,294
866,262	7,274,444
-	97,345
9,019,453	105,976,696
2,867,945	(16,501,964)
4,008,232	7,835,508
(3,626,262)	(5,330,529)
75,906	157,591
	5,255,000
-	374,935
-	(5,164,977)
457,876	3,127,528
3,325,821	(13,374,436)
24,583,878	88,322,870
$ 27,909,699	$ 74,948,434

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CITY OF NEW BRAUNFELS, TEXAS

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

For the Year Ended September 30, 2017

Net changes in fund balances - total governmental funds	$	(13,374,436)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation		(11,890,773)
Capital outlay		20,883,217
Capital contributions		3,459,563
The City uses internal service funds to charge the costs of certain activities to individual funds. Net change in net position of the internal service funds is reported with governmental activities.		862,352
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(128,623)
The issuance of long-term debt (e.g., bonds, leases, and certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.		
General obligation bonds issued		(5,255,000)
Principal repayments		10,295,000
Payment of refunding bond		4,955,000
Amortization of deferred charge on refunding		368,100
Amortization of premium on bonds		1,655,730
Accrued interest on long-term debt		(194,662)
Capital lease issued		(374,935)
Capital lease principal payment		188,508
Loan principal payment		66,788
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in claim liability		897,000
Compensated absences		(913,381)
Change in net pension liability		(1,162,948)
Change in OPEB obligation		(1,539,961)
Change in deferred outflows - pensions		(679,325)
Change in deferred inflows - pensions		219,795
Change in Net Position of Governmental Activities	$	8,337,009

See Notes to Financial Statements.

CITY OF NEW BRAUNFELS, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2017

	Business-Type Activities			
	Airport	Solid Waste	Golf Course	Civic Center
Assets				
Current assets:				
Cash and equity in pooled cash and investments	$ -	$ 2,536,056	$ 5,618	$ 163,089
Receivables, net	115,592	23,599	33,939	6,490
Due from other funds	568,570	267,160	-	-
Inventories	-	66,542	-	-
Total Current Assets	684,162	2,893,357	39,557	169,579
Noncurrent assets:				
Capital assets:				
Nondepreciable	2,405,961	-	135,000	-
Net depreciable capital assets	12,484,635	3,347,099	6,168,537	6,664,842
Total Capital Assets, Net of Accumulated Depreciation	14,890,596	3,347,099	6,303,537	6,664,842
Total Noncurrent Assets	14,890,596	3,347,099	6,303,537	6,664,842
Total Assets	15,574,758	6,240,456	6,343,094	6,834,421
Deferred Outflows of Resources				
Deferred outflows - pensions	94,120	619,477	152,715	64,016
Total Deferred Outflows of Resources	94,120	619,477	152,715	64,016
Liabilities				
Current liabilities:				
Accounts payable	187,114	244,283	38,115	27,096
Due to other funds	44,010	-	-	-
Deposits payable	51,729	-	-	61,467
Accrued expenses payable	-	-	-	-
Current portion of long-term liabilities:				
Accrued compensated absences	8,214	213,697	21,355	11,973
Loan payable	-	-	181,589	-
Total Current Liabilities	291,067	457,980	241,059	100,536
Noncurrent liabilities:				
Compensated absences	913	23,744	2,372	1,331
Net OPEB obligation	102,734	709,280	153,846	85,224
Net pension liability	340,495	2,261,051	550,815	245,663
Total Noncurrent Liabilities	444,142	2,994,075	707,033	332,218
Total Liabilities	735,209	3,452,055	948,092	432,754
Deferred Inflows of Resources				
Deferred inflows - pension	7,762	52,283	12,496	6,117
Net Position				
Net investment in capital assets	14,890,596	3,347,099	6,121,948	6,664,842
Unrestricted	35,311	8,496	(586,727)	(205,276)
Total Net Position	$ 14,925,907	$ 3,355,595	$ 5,535,221	$ 6,459,566

See Notes to Financial Statements.

Business-Type Activities	Governmental Activities
Total	Internal Service Fund
$ 2,704,763	$ 20,422
179,620	52,574
835,730	999,226
66,542	-
3,786,655	1,072,222
2,540,961	-
28,665,113	-
31,206,074	-
31,206,074	-
34,992,729	1,072,222
930,328	-
930,328	-
496,608	-
44,010	-
113,196	-
-	397,183
255,239	-
181,589	-
1,090,642	397,183
28,360	-
1,051,084	-
3,398,024	-
4,477,468	-
5,568,110	397,183
78,658	-
31,024,485	-
(748,196)	675,039
$ 30,276,289	$ 675,039

CITY OF NEW BRAUNFELS, TEXAS

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

PROPRIETARY FUNDS

For the Year Ended September 30, 2017

	Buisness-Type Activities			
	Airport	Solid Waste	Golf Course	Civic Center
Operating Revenues				
Charges for services	$ 2,398,310	$ 8,664,002	$ 1,436,493	$ 449,880
Miscellaneous	4,744	232,575	79,050	3,913
Total Operating Revenues	2,403,054	8,896,577	1,515,543	453,793
Operating Expenses				
Insurance premiums	-	-	-	-
Claims	-	-	-	-
Personnel	505,001	3,560,004	759,020	406,311
Fuel and oil for resale	1,075,787	-	-	-
Purchased services	323,502	1,787,850	124,658	176,413
Professional services	37,493	127,392	-	6,491
Supplies	59,323	883,543	249,253	42,774
Depreciation and amortization	1,219,426	1,361,833	701,305	347,647
Total Operating Expenses	3,220,532	7,720,622	1,834,236	979,636
Operating Income (Loss)	(817,478)	1,175,955	(318,693)	(525,843)
Nonoperating Revenues (Expenses)				
Investment earnings	-	17,184	-	-
Interest expense	-	-	(3,869)	-
Intergovernmental	50,000	-	-	-
Total Nonoperating Revenue (Expenses)	50,000	17,184	(3,869)	-
Income Before Contributions and Transfers	(767,478)	1,193,139	(322,562)	(525,843)
Contributions	-	-	346,551	-
Transfers in	157,370	-	-	278,995
Transfers (out)	(508,553)	(2,313,004)	(487,218)	(32,569)
Change in Net Position	(1,118,661)	(1,119,865)	(463,229)	(279,417)
Beginning net position	16,044,568	4,475,460	5,998,450	6,738,983
Ending Net Position	$ 14,925,907	$ 3,355,595	$ 5,535,221	$ 6,459,566

See Notes to Financial Statements.

Business-Type Activites	Governmental Activities
Total	Internal Service Fund
$ 12,948,685	$ 7,053,206
320,282	61,340
13,268,967	7,114,546
-	1,147,759
-	5,444,117
5,230,336	-
1,075,787	-
2,412,423	-
171,376	63,323
1,234,893	-
3,630,211	-
13,755,026	6,655,199
(486,059)	459,347
17,184	3,005
(3,869)	-
50,000	-
63,315	3,005
(422,744)	462,352
346,551	-
436,365	400,000
(3,341,344)	-
(2,981,172)	862,352
33,257,461	(187,313)
$ 30,276,289	$ 675,039

CITY OF NEW BRAUNFELS, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2017

	Business-Type Activities			
	Airport	Solid Waste	Golf Course	Civic Center
Cash Flows from Operating Activities				
Receipts from customers	$ 2,302,305	$ 8,890,289	$ 1,498,309	$ 453,440
Receipts from interfund services provided and used	-	-	-	-
Payments to suppliers	(1,902,765)	(2,962,481)	(444,048)	(213,945)
Payments for premiums, claims, and administrative charges	-	-	-	-
Payments for personnel services	(481,086)	(3,333,605)	(722,568)	(386,496)
Net Cash Provided (Used) by Operating Activities	(81,546)	2,594,203	331,693	(147,001)
Cash Flows from Noncapital Financing Activities				
Transfers in from other funds	157,370	-	-	278,995
Cash contribution received	-	-	346,551	-
Transfers (out) to other funds	(508,553)	(2,313,004)	(487,218)	(32,569)
Intergovernmental revenue	50,000	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(301,183)	(2,313,004)	(140,667)	246,426
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	(213,038)	(685,976)	-	(80,987)
Principal payments on debt	-	-	(181,589)	-
Interest paid on debt	-	-	(3,869)	-
Net Cash (Used) by Capital and Related Financing Activities	(213,038)	(685,976)	(185,458)	(80,987)
Cash Flows from Investing Activities				
Interest on investments	-	17,184	-	-
Net Cash Provided by Investing Activities	-	17,184	-	-
Net Increase (Decrease) in Cash and Equity in Pooled Cash and Investments	(595,767)	(387,593)	5,568	18,438
Beginning cash and equity in pooled cash and investments	595,767	2,923,649	50	144,651
Ending Cash and Equity in Pooled Cash and Investments	$ -	$ 2,536,056	$ 5,618	$ 163,089

Business-Type Activities	Governmental Activities
Total	Internal Service Fund
$ 13,144,343	$ -
-	7,118,219
(5,523,239)	
-	(8,003,592)
(4,923,755)	-
2,697,349	(885,373)
436,365	400,000
346,551	-
(3,341,344)	-
50,000	-
(2,508,428)	400,000
(980,001)	-
(181,589)	-
(3,869)	-
(1,165,459)	-
17,184	3,005
17,184	3,005
(959,354)	(482,368)
3,664,117	502,790
$ 2,704,763	$ 20,422

CITY OF NEW BRAUNFELS, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2017

	Business-Type Activities			
	Airport	Solid Waste	Golf Course	Civic Center
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	$ (817,478)	$ 1,175,955	$ (318,693)	$ (525,843)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	1,219,426	1,361,833	701,305	347,647
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(96,539)	(6,288)	(17,234)	965
Inventories	-	(22,693)	-	-
Due from other funds	(568,570)	(267,160)	-	-
Deferred outflows - pensions	3,645	23,307	5,971	1,997
Increase (Decrease) in:				
Accounts payable	117,900	126,157	(31,212)	11,733
Accrued expenses	-	-	(3,722)	-
Due to other funds	44,010	-	(35,203)	-
Net other post employment benefits obligation	18,446	73,025	2,796	5,862
Net pension liability	12,000	77,763	19,569	7,309
Accrued compensated absences	(11,272)	44,882	6,355	3,756
Customer deposits	(4,210)	-	-	(1,318)
Deferred inflows - pensions	1,096	7,422	1,761	891
Net Cash Provided (Used) by Operating Activities	$ (81,546)	$ 2,594,203	$ 331,693	$ (147,001)

See Notes to Financial Statements.

Business-Type Activities	Governmental Activities
Total	Internal Service Fund
$ (486,059)	$ 459,347
3,630,211	-
(119,096)	3,673
(22,693)	-
(835,730)	(999,226)
34,920	-
224,578	-
(3,722)	63,276
8,807	(412,443)
100,129	-
116,641	-
43,721	-
(5,528)	-
11,170	-
$ 2,697,349	$ (885,373)

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of New Braunfels, Texas (the "City") was founded in 1845. It has adopted a "Home Rule Charter", which provides for a "Mayor-Council" form of government. A Mayor and seven Council members are elected by voters of the City at large for three-year terms.

The City Council is the principal legislative and administrative body of the City. The Mayor is the presiding officer of the City Council and does not vote except in the case of a tie vote.

The City Manager is the head of the administrative departments of the City and is the supervisor of all administrative officers, employees, directors, and department heads. Departments and agencies of the City submit budget requests to the City Manager.

The City provides the following services: public safety (police, fire, and EMS), public works, parks and recreation, library, airport, solid waste collection, community services, and general government.

The accounting and reporting policies of the City conform to generally accepted accounting principles in the United States of America (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and those principles prescribed by the American Institute of Certified Public Accountants.

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

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

Discretely Presented Component Units

Industrial Development Corporation

The New Braunfels Industrial Development Corporation (the "Corporation") is a legally separate nonprofit entity which was organized under the laws of the State of Texas to provide economic development benefits for the City. The Corporation is presented as a governmental component unit. City Council appoints the Board of Directors and approves expenditures. Separate financial statements are not prepared.

New Braunfels Utilities

New Braunfels Utilities (NBU) is a legally separate entity which provides waterworks, sanitary sewer, and electric services in the New Braunfels area. City Council appoints the NBU Board of Trustees, and approves utility rates and the issuance of debt. The NBU is presented as an enterprise component unit. Complete financial statement for the NBU may be obtained at the NBU's administrative offices at 263 Main Plaza, New Braunfels, Texas 78130. The NBU's financial statements are presented on a July 31 fiscal year end.

Blended Component Units

Tax Increment Reinvestment Zone No. 1

During fiscal year 2007, the City passed a resolution creating a Tax Increment Reinvestment Zone No. 1 (TIRZ), in accordance with Section 311 of the Texas Tax Code, for the purpose of financing public improvements in support of the Creekside Town Center Development. The TIRZ includes participation by a developer and by other governmental entities, the Industrial Development Corporation (the "Corporation") and Comal County, Texas (the "County"). Under this arrangement, a certain percentage of the incremental ad valorem tax revenue collected by the City and the County and one-half cent of sales taxes collected by the City and the Corporation will be utilized to pay for certain infrastructure costs. Such tax revenue is controlled by the Board of Directors managing the TIRZ and are accounted for in a special revenue fund with the City's financial oversight. The Board of Directors is made up of seven members, five of which are appointed by the City Council.

New Braunfels Development Authority

During fiscal year 2007, the City passed a resolution creating the New Braunfels Development Authority (NBDA) in accordance with Section 394 of the Texas Local Government Code. The NBDA has been included in the reporting entity as a blended component unit. The NBDA was created to assist and act on behalf of the City in the performance of the City's governmental functions to promote the common good and general welfare of the TIRZ and to promote, develop, encourage, and maintain employment, commerce, and economic development in the City. During fiscal year 2007, the City passed an agreement (the "Agreement") between the City, the NBDA, and the TIRZ in which the NBDA will facilitate the implementation of the TIRZ plan and assist the City with reimbursement to the developer participating in the TIRZ. Reimbursement to the developer will be made through the issuance of bonds, notes, or other obligations available to the NBDA but only after consent of the City Council. Efforts of the NBDA will be financed using the TIRZ tax increment as outlined in the Agreement. Such taxes and payment of debt service activity are controlled by the Board of Directors managing the NBDA and are accounted for in a special revenue fund with the City's financial oversight. The Board of Directors is made up of seven members, five of which are appointed by the City Council.

Separate financial statements for the TIRZ and NBDA funds are not prepared.

The City also has the following related organization:

The Housing Authority of the City of New Braunfels (the "Authority") is a nonprofit entity, which was organized under the laws of the State of Texas to provide housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development. City Council appoints the Board of Directors of the Authority. However, the City is not financially accountable for the Authority because the Authority's operations are subsidized by the federal government, it sets its own budget subject to federal approval, it sets its rental rate, and it can issue debt in its own name. The City is not responsible for the deficits or liabilities of the Authority. Separately audited financial statements may be obtained at the City's administrative offices at 550 Landa Street, New Braunfels, Texas 78130.

B. Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, parks and recreation, and library. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

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

Hotel/motel tax fund: This fund accounts for the tax collections of the hotel/motel occupancy taxes and the disbursement of those funds.

The *capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects funds are considered nonmajor funds for reporting purposes, except for the general obligation fund.

General obligation fund: This fund accounts for the expenditures of the proceeds from the June 2014, April 2015, and July 2016 debt series issued for various purposes, including for street improvements, construction of drainage, equip parks and a recreations center, and construct and build the Center Texas Technology Center.

The *permanent fund* is used to account for nonexpendable trust arrangements where the principal may not be spent, and the earnings must be spent for a particular purpose. This fund is used to report the activity of the Cemetery Perpetual Care Fund. It is considered a nonmajor fund for reporting purposes.

The City reports the following proprietary funds:

The *enterprise funds* are used to account for the operations that provide airport, solid waste, golf course, and civic center operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The airport and solid waste funds are considered major funds for reporting purposes. While the golf course and civic center funds did not technically meet the criteria to be presented as major funds, the City has elected to present them as such due to their significance.

Internal service funds account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The City's internal service fund is used to account for services for the City's self-funded health plan, which are financed from systematic transfers from general governmental and enterprise funds.

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

1. Cash and Cash Equivalents

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

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and equity in pooled cash."

2. Investments

Investments, except for certain investment pools and commercial paper, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost. Commercial paper is reported at amortized cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The City is required by the Act to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the City's funds may be invested and the maximum allowable stated maturity of any individual investment owned by the City.

The Act contains specific provisions in the area of investment practices, management reports, and establishment of appropriate policies. Investments are administered by City management under terms of an investment policy and strategy that is updated to conform to the Act as last amended. The preservation of capital is the City's most important investment objective. Other objectives include providing liquidity and maximizing earnings within the constraints of other objectives. The City is in substantial compliance with the requires of the Act and with local policies.

In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. government
Money market mutual funds that meet certain criteria
Collateralized certificates of deposit
Municipal securities that meet certain criteria
Fully collateralized repurchase agreements that meet certain criteria
Bankers' acceptances
Commercial paper that meets certain criteria
Guaranteed investment contracts that meet certain criteria
Common trust funds

Statewide investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Streets/Drainage Infrastructure	20 years
Buildings	30 years
Building Improvements	20 years
Equipment	5-7 years
Fleet	5-7 years

5. Deferred Outflows/Inflows of Resources

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

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

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. On retirement or death of certain employees, the City pays accrued sick leave in a lump sum payment to such employee or his/her estate. Non-civil service employees with 15 or more years of service are eligible to receive one-half of their accumulated sick leave up to 480 hours. These employees are also eligible if they retire with 10 or more years of service. Police and fire personnel covered by civil service receive payment for all accumulated sick leave up to 720 hours for police and fire (non-shift) and 1,080 for fire shift personnel. Police came under civil service in October 2011. Employees are paid for all accrued vacation leave when they leave the City's employment. The City accrues its liability for such accumulated unpaid benefits in the government-wide financial statements and proprietary fund financial statements.

The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

7. Long-Term Obligations

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of solid waste infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of solid waste revenues.

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

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

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

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

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

Unassigned fund balance includes amounts that have not been assigned to other funds or restricted, committed, or assigned to specific purpose within the general fund or deficit balances in other funds.

	General	Hotel/Motel Tax	Debt Service	General Obligations	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:						
Cemetery perpetual care	$ -	$ -	$ -	$ -	$ 28,275	$ 28,275
Inventory	645	-	-	-	-	645
Restricted to:						
Tourism	-	2,237,261	-	-	-	2,237,261
Debt service	-	-	1,877,188	-	-	1,877,188
Grants	-	-	-	-	412,192	412,192
Special donation	-	-	-	-	277,100	277,100
Stormwater developmnet	-	-	-	-	138,905	138,905
Library	-	-	-	-	1,134	1,134
Capital projects	-	-	-	23,856,639	15,880,870	39,737,509
Public safety	-	-	-	-	322,722	322,722
Municipal court	-	-	-	-	351,399	351,399
Governmental programming	-	-	-	-	233,889	233,889
Other special projects	-	-	-	-	4,611,044	4,611,044
Committed to:						
Enterprise equipment	-	-	-	-	5,652,169	5,652,169
Assigned						
Equipment replacement	1,367,650	-	-	-	-	1,367,650
Unassigned	17,699,352	-	-	-	-	17,699,352
Total Fund Balances	$ 19,067,647	$ 2,237,261	$ 1,877,188	$ 23,856,639	$ 27,909,699	$ 74,948,434

Minimum Fund Balance Policy

The City will maintain an operating reserve for use in the event of unanticipated, extraordinary expenditures and/or the loss of a major revenue source. In the general fund, the operating reserve and specified contingencies shall be established at a minimum of 25 percent of the general fund budgeted expenditures for the current fiscal year. For all other special revenue funds, the operating reserve shall equal 10 percent of the budgeted annual expenditures. The funds can only be appropriated by an affirmative vote of five of the seven Council members.

Capital project funds' reserves will be established by project, not by fund and will, in general, reflect 3 percent of the total project costs.

The City will maintain a balance in the debt service fund equal to not less than 10 percent of the principal and interest payments on outstanding debt for each fiscal year. These funds can only be appropriated by an affirmative vote of five of the seven Council members.

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes are levied by October 1 of each year on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Taxes are due upon receipt of the City's tax bill and become delinquent, with an enforceable lien on property, on February 1 of the following year.

Allowance for uncollectible tax receivables within the general and debt service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

Two meetings of the City Council are then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.

Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital projects funds, which adopt a project length budgets. The general obligation fund, a major fund for reporting purposes, is considered a capital projects fund and does not present an annual operating budget. The legal level of budgetary control (i.e., the level at which expenditures may not exceed appropriations), as defined by the charter, is at the fund, department, and at the group level for all funds in similar expenditure categories with the following exceptions: budgets are controlled at the division level for support services, planning and community development, and public works divisions. Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the City Council. During the year, the budget was amended as necessary. Appropriations lapse at the end of the year, excluding capital project budgets.

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year end) are completed. Such encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

A. Expenditures In Excess of Appropriations

For the year ended September 30, 2017, expenditures exceeded appropriations at the legal level of control as follows:

General Fund		
General government:		
Nondepartmental	$	99,874
Public safety:		
Fire	$	129,886
Edwards Aquifer HCP Fund		
Public works	$	72,456

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

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

Investment Type	Fair Value	Weighted Average Maturity (Years)	Credit Rating
Primary Government and Component Unit-IDC:			
U.S. agencies:			
Federal Home Loan Mortgage Corp.	$ 2,995,833	0.14	Aaa
Federal Home Loan Bank	2,988,621	0.34	Aaa
Federal Farm Credit Bank	2,984,187	0.46	Aaa
External investment pools:			
TexPool	69,481,453	0.00	AAAm
Total	$ 78,450,094		
Portfolio weighted average maturity		0.04	
Component Unit - NBU			
U.S. agency securities	$ 32,783,212	2.35	Aa+
State and local bonds	502,405	1.79	AAA
Certificates of deposit	6,312,500	1.01	N/A
Demand deposit and money market	9,473,576	0.00	N/A
Pooled funds	37,334,270	0.00	AAAm
Total	$ 86,405,963		
Portfolio weighted average maturity		0.96	

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. *72, Fair Value Measurement and Application,* provides a framework for measuring fair value establishing a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

- Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

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

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of September 30, 2017, the City had the following recurring fair value measurements:

		Fair Value Measurements Using	
	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by Fair Value Level			
Primary Government and Component Unit-IDC			
U.S. Government Agency Bonds/Notes			
Federal Home Loan Mortgage Corporation	$ 2,995,833	$ -	$ 2,995,833
Federal Home Loan Bank	2,988,621	-	2,988,621
Federal Farm Credit Bank	2,984,187	-	2,984,187
Total	$ 8,968,641	$ -	$ 8,968,641
Component Unit - NBU			
U.S. agency securities	$ 32,783,212	$ -	$ 32,783,212
Municipal bonds	502,405	-	502,405
Total	$ 33,285,617	$ -	$ 33,285,617

U. S. Government agency bonds and notes are classified in Level 2 of the fair value hierarchy and are valued using the market approach.

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

Credit risk. The City's policy requires that investment pools must be rated no lower than 'AAA' or 'AAAm'. As of September 30, 2017, the City's investments in TexPool were rated 'AAAm' by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency. More specifically, the U.S. agency securities held by the City as of September 30, 2017 consist of a variety of bonds and discount notes issued by the Federal Home Loan Bank, the Federal National Mortgage Association, and the Federal Farm Credit Bank. These investments were rated not less than 'Aaa' by both Moody's and Standard & Poor's.

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

Custodial credit risk – investments. For an investment, this is the risk that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The City's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

Foreign currency risk – This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, neither the City nor its component units were exposed to foreign currency risk.

<u>TexPool</u>

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of $1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

B. Receivables

Amounts are aggregated into a single accounts receivable line (net of allowance for uncollectibles) for certain funds and aggregated columns. Below is the detail of receivables for the general fund, hotel/motel tax fund, debt service fund, the nonmajor governmental funds in the aggregate, and the proprietary funds, including the applicable allowances for uncollectible accounts:

	Governmental Funds				
	General	Hotel/Motel Tax	Debt Service	Nonmajor Funds	Total
Ad valorem taxes	$ 363,378	$ -	$ 267,482	$ -	$ 630,860
Other taxes	-	164,656	-	42,289	206,945
Accounts	6,092,224	648,816	105,483	368,172	7,214,695
Intergovernmental	-	-	-	1,267,669	1,267,669
Less allowance	(88,255)	-	(54,547)	-	(142,802)
	$ 6,367,347	$ 813,472	$ 318,418	$ 1,678,130	$ 9,177,367

	Proprietary Funds				
	Airport	Solid Waste	Golf Course	Civic Center	Total
Accounts	$ 65,592	$ 23,599	$ 3,240	$ 35	$ 92,466
Intergovernmental	50,000	-	-	-	50,000
Other	-	-	30,699	6,455	37,154
	$ 115,592	$ 23,599	$ 33,939	$ 6,490	$ 179,620

C. Capital Assets

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

	Beginning Balance*	Increases	Reclassifications (Decreases)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 32,021,862	$ 2,871,593	$ -	$ 34,893,455
Construction in progress	746,531	16,683,678	(1,313,223)	16,116,986
Total capital assets not being depreciated	32,768,393	19,555,271	(1,313,223)	51,010,441
Other capital assets				
Road network	101,255,790	1,936,417	-	103,192,207
Infrastructure	25,040,967	-	-	25,040,967
Buildings	62,616,591	1,584,882	-	64,201,473
Improvements other than buildings	41,798,712	1,492,121	-	43,290,833
Machinery and equipment	10,299,209	101,013	-	10,400,222
Fleet	17,983,621	986,299	(702,341)	18,267,579
Total other capital assets	258,994,890	6,100,732	(702,341)	264,393,281
Less accumulated depreciation for:				
Road network	(60,626,231)	(5,120,436)	-	(65,746,667)
Infrastructure	(7,089,937)	(835,798)	-	(7,925,735)
Buildings	(33,215,512)	(1,400,544)	-	(34,616,056)
Improvements other than buildings	(15,381,214)	(2,846,750)	-	(18,227,964)
Machinery and equipment	(8,328,555)	(411,429)	-	(8,739,984)
Fleet	(14,024,185)	(1,275,816)	702,341	(14,597,660)
Total accumulated depreciation	(138,665,634)	(11,890,773)	702,341	(149,854,066)
Other capital assets, net	120,329,256	(5,790,041)	-	114,539,215
Governmental Activities Capital Assets, Net	$ 153,097,649	$ 13,765,230	$ (1,313,223)	165,549,656
		Less associated debt		(190,736,821)
		Plus deferred charge on refunding		2,114,149
		Plus unspent bond proceeds		28,543,695
		Net Investment in Capital Assets		$ 5,470,679

**Beginning balances have been restated.*

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

General government	$ 2,208,796
Finance and tax	191,575
Planning and environmental development	573,244
Public safety	6,317,338
Public works	1,239,936
Parks and recreation	931,364
Library	428,520
Total Governmental Activities Depreciation Expense	$ 11,890,773

The following is a summary of changes in capital assets for business-type activities for the year end:

	Beginning Balance	Increases	Reclassifications (Decreases)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 2,540,961	$ -	$ -	2,540,961
Construction in progress	1,060,737	97,218	(1,157,955)	-
Total capital assets not being depreciated	3,601,698	97,218	(1,157,955)	2,540,961
Other capital assets				
Buildings	19,805,215	1,157,955	-	20,963,170
Improvements other than building	19,791,836	77,877	-	19,869,713
Furniture and fixtures	20,190	-	-	20,190
Machinery and equipment	799,923	110,987	-	910,910
Fleet	9,975,296	693,919	(186,670)	10,482,545
Airspace easement	37,515	-	-	37,515
Total other capital assets	50,429,975	2,040,738	(186,670)	52,284,043
Less accumulated depreciation for:				
Buildings	(8,561,541)	(625,993)	-	(9,187,534)
Improvements other than building	(6,023,986)	(1,321,459)	-	(7,345,445)
Furniture and fixtures	(5,427)	(2,884)	-	(8,311)
Machinery and equipment	(552,223)	(42,219)	-	(594,442)
Fleet	(5,011,152)	(1,636,719)	186,670	(6,461,201)
Airspace easement	(21,059)	(938)	-	(21,997)
Total accumulated depreciation	(20,175,388)	(3,630,212)	186,670	(23,618,930)
Other capital assets, net	30,254,587	(1,589,474)	-	28,665,113
Business-Type Activities Capital Assets, Net	$ 33,856,285	$ (1,492,256)	$ (1,157,955)	31,206,074
		Less associated debt		(181,589)
		Net Investment in Capital Assets		$ 31,024,485

Depreciation was charged to business-type functions as follows:

Airport	$ 1,219,427
Solid waste	1,361,833
Golf course	701,305
Civic center	347,647
Total Business-Type Activities Depreciation Expense	$ 3,630,212

The following is a summary of changes in capital assets for discretely presented component units for the year end:

	Beginning Balance	Increases	Reclassifications (Decreases)	Ending Balance
Component Units:				
Capital assets not being depreciated:				
Land and improvements	$ 26,341,588	$ -	$ -	$ 26,341,588
Construction in progress	94,641,278	61,047,268	(126,588,295)	29,100,251
Total capital assets not being depreciated	120,982,866	61,047,268	(126,588,295)	55,441,839
Other capital assets				
Buildings	50,163,824	20,751,744	-	70,915,568
Infrastructure	367,808,177	62,036,973	(8,712,393)	421,132,757
Equipment	48,075,916	43,686,751	135,245	91,897,912
Wells and springs	540,047	73,773	-	613,820
Total other capital assets	466,587,964	126,549,241	(8,577,148)	584,560,057
Less accumulated depreciation for:				
Buildings	(28,349,054)	(1,496,130)	-	(29,845,184)
Infrastructure	(145,151,247)	(13,651,383)	6,333,856	(152,468,774)
Equipment	(30,668,432)	(3,413,585)	-	(34,082,017)
Wells and springs	(456,697)	(9,681)	-	(466,378)
Total accumulated depreciation	(204,625,430)	(18,570,779)	6,333,856	(216,862,353)
Other capital assets, net	261,962,534	107,978,462	(2,243,292)	367,697,704
Component Units Capital Assets, Net	$ 382,945,400	$ 169,025,730	$ (128,831,587)	$ 423,139,543

D. Long-Term Debt

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

	Beginning Balance*	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Governmental Activities:						
Bonds, notes, and other payables:						
General obligation bonds	$ 89,485,000	$ 5,255,000	$ (3,535,000)	$ 91,205,000		$ 4,675,000
Certificates of obligation	73,615,000	-	(10,485,000)	63,130,000		4,180,000
Contract revenue obligations	25,555,000	-	(1,230,000)	24,325,000		1,270,000
Bond premium	12,321,404	-	(1,655,730)	10,665,674		-
	200,976,404	5,255,000	(16,905,730)	189,325,674	**	10,125,000
Other liabilities:						
Equipment loan payable	534,301	-	(66,788)	467,513	**	66,788
Capital lease payable	757,206	374,935	(188,507)	943,634	**	260,585
Net pension liability	31,673,675	1,162,948	-	32,836,623		-
Net OPEB obligation	8,871,468	1,539,961	-	10,411,429		-
Compensated absences	5,128,991	3,525,254	(2,611,873)	6,042,372		5,438,135
Total Governmental Activities	$ 247,942,045	$ 11,858,098	$ (19,772,898)	$ 240,027,245		$ 15,890,508
			Long-term debt due in more than one year	$ 224,136,737		
			**** Debt associated with capital assets**	$ 190,736,821		

**Beginning balances have been restated.*

	Beginning Balance	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Business-Type Activities:						
Equipment loan payable	$ 363,178	$ -	$ (181,589)	$ 181,589	***	$ 181,589
Net pension liability	3,281,383	116,641	-	3,398,024		-
Net OPEB obligation	950,955	100,129	-	1,051,084		-
Compensated absences	239,878	283,599	(239,878)	283,599		255,239
Total Business-Type Activities	$ 4,835,394	$ 500,369	$ (421,467)	$ 4,914,296		$ 436,828
			Long-term debt due in more than one year	$ 4,477,468		
			***** Debt associated with business-type activity capital assets**	$ 181,589		

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Component Units:					
Bonds payable	$ 114,794,019	$ 156,013	$ (2,250,000)	$ 112,700,032	2,320,000
Bond premium	2,304,893	-	(457,367)	1,847,526	-
Net pension liability	9,295,380	-	(146,834)	9,148,546	-
Compensated absences	1,736,897	-	(217,092)	1,519,805	859,048
Total Component Units	$ 128,131,189	$ 156,013	$ (3,071,293)	$ 125,215,909	$ 3,179,048
			Long-term debt due in more than one year	$ 122,036,861	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences, net pension liability, and other post employment benefit obligations are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Refunded Debt

During the year, the City issued general obligation refunding bonds, series 2017 for $5,255,000 to provide resources for an advanced refunding of governmental long-term debt. The advanced refunding provided resources to purchase direct obligations of the United States of America that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of $4,955,000 for outstanding combination tax and limited pledge revenue certificates of obligation series 2009. As a result, the refunded portion of the bonds is considered to be defeased and the pro-rata portion of the liability has been removed from the applicable governmental activities column in the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by $283,220. The refunding bonds reduced total debt service payments by $565,392 over the next 12 years and resulted in an economic gain of $492,497. At September 30, 2017, $4,955,000 of combination tax and limited pledge revenue certificates of obligation series 2009 was considered defeased.

Prior Year Defeasance of Debt

In prior years, the City defeased certificates of obligation by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2017, $13,655,000 of defeased certificates of obligation remain outstanding.

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

Governmental Activities: Series	**Final Maturity**		**Original Issue**	**Interest Rate**	**Balance**
General Obligation Bonds					
2010 General Obligation Refunding Bonds	2018		$ 730,000	1.000-2.950%	$ 245,000
2013 General Obligation Refunding Bonds	2023		$ 3,820,000	2.000-3.000%	2,500,000
2013A General Obligation Refunding Bonds	2020		$ 7,020,000	2.000-4.000%	4,305,000
2014 General Obligation Bonds	2034		$ 13,970,000	2.000-5.000%	12,485,000
2015 General Obligation and Refunding Bonds	2035		$ 29,260,000	2.000-5.000%	28,420,000
2016 General Obligation Refunding Bonds	2036		$ 37,360,000	2.000-5.000%	37,070,000
2017 General Obligation Refunding Bonds	2029		$ 5,255,000	1.910%	5,255,000
2015 Tax Note	2022		$ 1,285,000	1.630%	925,000
			Total General Obligation		91,205,000
Certificates of Obligation					
2006A Certificates of Obligation	2021		$ 1,600,000	3.600-4.500%	575,000
2006B Certificates of Obligation	2017	*	$ 8,000,000	4.000-5.125%	-
2007 Certificates of Obligation	2017	*	$ 17,500,000	4.000-5.250%	-
2008 Certificates of Obligation	2018	*	$ 14,300,000	3.500-5.250%	665,000
2009 Certificates of Obligation	2019	*	$ 9,500,000	2.000-4.500%	930,000
2011 Certificates of Obligation	2031		$ 18,200,000	4.050%	14,310,000
2012 Certificates of Obligation	2032		$ 19,470,000	2.000-5.000%	15,755,000
2013 Certificates of Obligation	2033		$ 19,490,000	3.000-5.000%	16,730,000
2014A Certificates of Obligation	2034		$ 6,845,000	2.000-5.000%	6,100,000
2014B Certificates of Obligation	2034		$ 3,280,000	2.000-5.000%	3,025,000
2015 Certificates of Obligation	2035		$ 5,395,000	2.000-5.000%	5,040,000
			Total Certificates of Obligation		63,130,000
Tax Increment Contract Revenue Obligations					
2012 Tax Increment Contract Revenue Improvement and Refunding Obligations	2032		$ 11,670,000	2.93%	9,500,000
2014 Tax Increment Contract Revenue Notes	2032		$ 17,000,000	3.68%	14,825,000
	Total Tax Increment Contract Revenue Obligations				24,325,000
	Total Governmental Activities Long-Term Debt				$ 178,660,000

**After refunding*

The annual requirements to amortize general obligation bonds, certificates of obligation, and tax increment contract revenue obligations outstanding at year end were as follows:

	Governmental Activities						
Year Ending Sep. 30	General Obligation		Certificates of Obligation		Tax Increment Contract Revenue Obligations		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2018	$ 4,675,000	$ 3,580,669	$ 4,180,000	$ 2,447,186	$ 1,270,000	$ 823,910	$ 16,976,765
2019	5,830,000	3,368,876	3,650,000	2,310,029	1,315,000	780,999	17,254,904
2020	6,435,000	3,130,392	3,270,000	2,194,136	1,360,000	736,545	17,126,073
2021	6,635,000	2,929,736	3,385,000	2,080,776	1,405,000	690,584	17,126,096
2022	6,820,000	2,698,096	3,385,000	1,962,853	1,450,000	643,080	16,959,029
2023-2027	30,970,000	8,955,314	19,080,000	7,663,218	8,030,000	2,444,889	77,143,421
2028-2032	17,860,000	4,197,172	22,245,000	3,152,774	9,495,000	988,104	57,938,050
2033-2036	11,980,000	858,950	3,935,000	168,513	-	-	16,942,463
Total	$ 91,205,000	$ 29,719,205	$ 63,130,000	$ 21,979,485	$ 24,325,000	$ 7,108,111	$ 237,466,801

General obligation bonds and certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds and certificates of obligation are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

In December 2012 and July 2014, the NBDA issued Tax Increment Contract Revenue and Refunding Obligations, series 2012 and Tax Increment Contract Revenue Obligations, series 2014, respectively, with the authorization and approval of the City. The obligations were issued to reimburse a developer for certain public improvement projects related to the Creekside Town Center Development and pay the costs of issuance. The debt issuances are the limited obligation of the NBDA, payable solely from pledged revenues. The pledged revenues consist of tax increments from the TIRZ payable to the NBDA as specified in the tri-party agreement between the City, the TIRZ, and the NBDA. The City is not obligated to make payments on the series 2012 and series 2014 obligations.

The City entered into a ten-year loan payable of $1,394,231 with an interest rate of 2.09% with a national bank on May 30, 2014. The proceeds of the loan were used to acquire capital assets by which the loan is secured. The annual requirements to amortize the equipment loan payable outstanding at year end were as follows:

Equipment Loan Payable:

Year Ending Sep. 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	$ 66,788	$ 9,771	$ 76,559	$ 181,589	$ 3,795	$ 185,384
2019	63,382	8,375	71,757	-	-	-
2020	64,707	7,051	71,758	-	-	-
2021	66,059	5,698	71,757	-	-	-
2022	67,440	4,317	71,757	-	-	-
2023-2027	139,137	4,377	143,514	-	-	-
Total	$ 467,513	$ 39,589	$ 507,102	$ 181,589	$ 3,795	$ 185,384

The City has entered into various capital lease financing arrangements with interest rates that range from 1.85% to 2.25%. The annual requirements to amortize the capital leases payable outstanding at year end were as follows:

	Governmental Activities		
Year Ending Sep. 30	**Principal**	**Interest**	**Total**
2018	$ 260,585	$ 14,733	$ 275,318
2019	262,361	12,956	275,317
2020	267,139	8,178	275,317
2021	75,964	3,276	79,240
2022	77,585	1,656	79,241
Total	$ 943,634	$ 40,799	$ 984,433

The assets acquired through capital leases are as follows:

Assets:	
Vehicles	$ 669,454
Equipment	492,471
Less: accumulated depreciation	(472,906)
Total	$ 689,019

The annual requirements to amortize NBU bonds outstanding at year end were as follows:

	Bonds Payable		
Year Ending Sep. 30	**Principal**	**Interest**	**Total**
2018	$ 2,320,000	$ 4,062,694	$ 6,382,694
2019	2,095,008	3,983,044	6,078,052
2020	2,032,023	3,904,794	5,936,817
2021	2,081,857	3,838,294	5,920,151
2022	2,141,326	3,768,494	5,909,820
2023-2027	13,539,818	17,460,570	31,000,388
2028-2032	19,000,000	14,587,169	33,587,169
2033-2037	21,235,000	11,090,844	32,325,844
2038-2042	24,840,000	6,912,894	31,752,894
2043-2047	23,415,000	2,082,775	25,497,775
Total	$ 112,700,032	$ 71,691,572	$ 184,391,604

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

E. Interfund Receivables and Payables

Interfund balances at September 30, 2017 consisted of the following:

	Due To					
Due From	**General**	**Nonmajor**	**Internal Service**	**Airport**	**Solid Waste**	**Total**
General obligations fund	$ -	$ 6,485,069	$ 999,226	$ 568,570	$ 267,160	$ 8,320,025
Nonmajor governmental	1,254,080	-	-	-	-	1,254,080
Airport fund	44,010	-	-	-	-	44,010
	$ 1,298,090	$ 6,485,069	$ 999,226	$ 568,570	$ 267,160	$ 9,618,115

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

F. Interfund Transfers

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

	Transfers In	Transfers Out
Governmental Funds:		
Individual major governmental funds:		
General	$ 823,729	$ 715,372
Hotel/motel tax	-	988,895
Debt service	1,503,547	-
General obligation	1,500,000	-
Other nonmajor governmental funds	4,008,232	3,626,262
Total Governmental Funds	7,835,508	5,330,529
Enterprise Funds:		
Individual major enterprise funds:		
Airport	157,370	508,553
Solid waste	-	2,313,004
Golf course	-	487,218
Civic center	278,995	32,569
Total Enterprise Funds	436,365	3,341,344
Internal Service Funds:		
Self-insurance	400,000	-
Total Internal Service Funds	400,000	-
Total Transfers	$ 8,671,873	$ 8,671,873

Transfers between funds occur primarily to finance programs accounted for in one fund with resources collected in other funds in accordance with budgetary authorizations.

G. Prior Period Adjustment

The City's net position for governmental activities has been restated to adjust for costs related to the Old Channel Restoration Project (OCRP) that were previously capitalized. The City has removed the value of this project from the beginning capital asset balance, along with its related accumulated depreciation.

The beginning fund balances of two nonmajor governmental funds were restated to account for the activity of the TIRZ and NBDA as blended component units of the City. In addition, the City's net position was restated to include the long-term debt related to the NBDA's outstanding obligations. See Note III.D. for information related to these obligations. Lastly, the City's net position for governmental activities was restated to adjust for the capital assets which were conveyed to the City as part of the TIRZ's Creekside Town Center (CTC) project, as well as adjusting for the related accumulated depreciation for these assets.

	Governmental Activities	Nonmajor Governmental Funds
Beginning net position/fund balance, as reported	$ 4,118,681	$ 21,242,328
Restatement - capital assets (OCRP)	(395,758)	-
Restatement - accumulated depreciation (OCRP)	19,432	-
Restatement - TIRZ fund balance	2,141,097	2,141,097
Restatement - NBDA fund balance	1,200,453	1,200,453
Restatement - NBDA long-term debt	(25,555,000)	-
Restatement - capital assets (CTC)	28,907,788	-
Restatement - accumulated depreciation (CTC)	(7,939,595)	-
Beginning net position/fund balance, as restated	$ 2,497,098	$ 24,583,878

IV. OTHER INFORMATION

A. Risk Management

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

The City's health insurance program is a self-insured minimum premium cash flow plan (the "Plan"). The City makes pre-determined monthly contributions to the Plan to fully cover the cost of employee-only coverage. The City and each covered employee make a pre-determined monthly contribution to the Plan if they cover one or more dependents. All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the Plan, and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for each claim processed. Funding covers both the cost of claims and administrative expenses. The City paid $5,444,117 in health claims and paid $1,129,019 for administrative costs for the year ended September 30, 2017. The City contributed $6,379,483 and City employees contributed $1,527,530 to the Plan for the year ended September 30, 2017.

The transactions of the Plan are reported in the City's internal service fund. The City pays a specified monthly amount for each employee and a portion of an employee's dependent coverage which averages to approximately $693. The largest portion of this amount is dedicated to the direct payment of claims. The remaining part of the monthly amount is dedicated to the payments of administrative fees and commercial insurance for excess claims. The commercial insurance coverage becomes effective when the claims exceed the maximum amount per employee.

Estimated health claims that have been incurred but not reported are accrued at year end. The estimated liability for health claims is $397,183 at September 30, 2017. The estimated liability for health claims is based upon historical claims experience.

The change in the claim liability for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Claims payable, beginning of year	$ 333,906	$ 283,618
Plus: incurred claims	5,444,117	6,444,733
Less: claims paid	(5,380,840)	(6,394,445)
Claims Payable, End of Year	$ 397,183	$ 333,906

B. Contingent Liabilities

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

At September 30, 2017, the City is involved in various lawsuits. These lawsuits generally involve claims relating to general liability, automobile liability, civil rights actions, and various contractual matters. In the opinion of management, any liability resulting from such litigation would not have a material adverse effect on the City's financial statements.

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

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the

State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

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

	2017	2016
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	239
Inactive employees entitled to, but not yet receiving, benefits	257
Active employees	579
Total	1,075

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.23 percent and 16.94 percent in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were $6,102,303, which were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

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

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

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

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year:			
Service cost	$ 6,283,281	$ -	$ 6,283,281
Interest	8,990,600	-	8,990,600
Change in current period benefits	-	-	-
Difference between expected and actual experience	887,337	-	887,337
Changes in assumptions	-	-	-
Contributions - employer	-	5,961,496	(5,961,496)
Contributions - employee	-	2,424,270	(2,424,270)
Net investment income	-	6,574,073	(6,574,073)
Benefit payments, including refunds of employee contributions	(4,267,920)	(4,267,920)	-
Administrative expense	-	(74,212)	74,212
Other changes	-	(3,998)	3,998
Net Changes	11,893,298	10,613,709	1,279,589
Balance at December 31, 2015	132,186,396	97,231,338	34,955,058
Balance at December 31, 2016	$ 144,079,694	$ 107,845,047	$ 36,234,647

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	$ 59,393,584	$ 36,234,647	$ 17,489,742

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2017, the City recognized pension expense of $7,853,149.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,011,713	$ 527,300
Changes in actuarial assumptions	-	288,198
Difference between projected and actual investment earnings	4,294,595	-
Contributions subsequent to the measurement date	4,707,975	-
Total	$ 10,014,283	$ 815,498

$4,707,975 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 NPL for the fiscal year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2018	$ 1,488,443
2019	1,488,443
2020	1,267,484
2021	121,420
2022	125,020
Thereafter	-
Total	$ 4,490,810

D. Other Post Employment Benefits

1. TMRS Supplemental Death Benefits Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the pension trust fund. For the year ended September 30, 2017, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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

The City's contributions to the TMRS SDBF for the fiscal years ended 2017 and 2016 were $10,765 and $10,604, respectively. The City's contribution rates for the past three years are shown below:

	2017	2016	2015
Annual Req. Contrib. (Rate)	0.03%	0.03%	0. 03%
Actual Contribution Made	0.03%	0. 03%	0. 03%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

2. Post Employment Healthcare Plan

Plan Description

The City provides certain health care benefits to retired employees under a single-employer defined benefit healthcare plan (the "Plan"). The Plan does not issue separate financial statements.

The City maintains self-funded medical, prescription drug, dental, and vision coverage for eligible employees and retired employees and their dependents. All retirees are eligible to continue their health insurance coverage at the same cost that the City pays for its employees. Thus, in effect, the City is subsidizing the cost of the higher premiums for its retirees. The City also provides $7,500 in life insurance coverage for its retirees through TMRS. To be eligible for coverage after retirement, employees must be covered as an active employee in the City health program at the time of retirement, reach their 60th birthday, and have 5 years of service with the City, or have earned 20 years of TMRS service, and pay a Plan premium as set by the City for themselves and their dependents.

Funding Policy

Plan members are required to pay a premium for themselves and their dependents. Currently, the premium is set at $525 per retiree and an additional premium of $485 for spouses, $450 for children, and $593 for spouse and children.

The Plan is financed on a pay-as-you-go basis.

Annual OPEB Cost

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the plan, and the City's net OPEB obligation.

Annual required contribution (ARC)	$ 1,692,481
Interest on net OPEB obligation (NPO)	392,897
Adjustment to the ARC	(390,352)
Annual OPEB cost	1,695,026
Contributions made	(54,935)
Increase in net OPEB obligation	1,640,091
Net OPEB obligation - beginning of year	9,822,422
Net OPEB obligation - end of year	$ 11,462,513

A separate audited GAAP basis OPEB plan report is not available.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years are as follows:

			Percentage of	Net OPEB Obligation	
Fiscal Year	Net Employer Contribution	Annual OPEB Cost	Annual OPEB Cost Contributed	Beginning	Ending
2015	$ 254,407	$ 1,724,767	14.75%	$ 6,904,165	$ 8,374,525
2016	$ 246,753	$ 1,694,650	14.56%	$ 8,374,525	$ 9,822,422
2017	$ 54,935	$ 1,695,026	3.24%	$ 9,822,422	$ 11,462,513

Funded Status and Funding Progress

As of September 30, 2016, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was $11,479,532, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $11,479,532. The annual covered payroll is $28,218,371 and the UAAL as a percentage of covered payroll is 40.68 percent:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits in force provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions:

Investment Rate of Return	4.0%, net of expenses
Actuarial Cost Method	Projected unit credit
Amortization Method	Level as a percentage of employee payroll
Remaining Amortization Period	30 years - Open period
Asset Valuation Method	Market value
Inflation Rate	2.50% per annum
Salary Growth	3.00% per annum
Heathcare Cost Trend Rate (Initial/Ultimate)	For 2017 through 2020, Lewis &Ellis best estimate assumptions were developed by observation and extrapolation of plan experience and industry data. Thereafter, rates developed using the baseline projection of the SoA Long-Run Medical Cost Trend Model.

E. Operating Lease

NBU has an operating lease (the "Lease") with Lower Colorado River Authority (LCRA) to lease certain transmission assets to LCRA. Payments for the lease facilities are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements, and depreciation. The terms of the Leases are perpetual, but may be terminated by either party upon five years written notice. On March 30, 2017, LCRA and NBU executed a Memorandum of Agreement (MOA) to terminate the Lease effective March 31, 2022. The MOA outlines a lease payment freeze that reverts the Lease payments to the Lease asset value as of NBU's Transmission Cost of Service (TCOS) rate case dated July 7, 2014. The compensable Lease asset value at the time was $10,992,460, which equates to Lease revenue of $855,667 per year. Lease revenues were $797,793 and $791,039 in fiscal year 2017 and fiscal year 2016, respectively. The receipts for fiscal year 2018 are expected to be $855,667.

F. Tax Abatements

1. Chapter 378 Neighborhood Empowerment Zone Agreement

Chapter 378 of the Texas Local Government Code, *Neighborhood Empowerment Zone*, provides the authority to the governing body of a municipality to create a Neighborhood Empowerment Zone that would promote an increase in economic development in the municipality. The City has entered into a property tax abatement agreement (the "Agreement") with a company (the "Company") as authorized by Chapter 378 of the Texas Local Government Code. Under the Agreement, the Company agrees to establish a customer contact center that will employ 120 people by the end of the first year of operation and will employ at least 343 people by the end of the tenth year of operation. In exchange, the City will pay the Company 50 percent of the sales tax revenue received by the City which is connected to the Company's business activities within the City starting on the date outlined in the Agreement for a period of 10 years. The Agreement provides for recapture of sales taxes in the event of material breach. For the year ended September 30, 2017, the total amount of taxes abated were $1,846,688 for the City and $615,563 for the IDC.

2. Chapter 380 Economic Development Agreement

Chapter 380 of the Texas Local Government Code, *Miscellaneous Provisions Relating to Municipal Planning and Development*, provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs to promote state or local economic development and to stimulate business and commercial activity in the municipality.

Sales Taxes

The City has entered into sales tax abatement agreements (the "Agreements") with several developers (the "Developers") as authorized by Chapter 380 of the Texas Local Government Code.

Under each Agreement, the Developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their sales taxes abated. The minimum limitation value varies by Agreement. The City has sales tax abatements with the following Developers. Each Agreement provides for recapture in the event of material breach. The following summarizes the current Agreements:

- A Developer constructed a commercial and mixed-use development of approximately 160.56 acres of land for the purpose of promoting economic development in the City and stimulating business and commercial activity. The improvements were to be completed based on the terms of the Agreement. The Agreement expires 25 years after the effective date of the Agreement. The City will make payments to the Developer from sales tax revenues at an amount equal to 50 percent of sales tax revenue collected by the City and generated by the project. For the year ended September 30, 2017, the total amount of taxes abated were $108,109 for the City.

- A Developer will construct a new grocery retail store with approximately 120,000 square-feet for the purpose of creating and/or retaining at least 108 full-time equivalent (FTE) employees. The City has granted the Developer a tax limitation of $1.5 million for a period of 5 years. In order to be eligible to receive the limitation, the Developer must have invested at least $14 million during the time period beginning October 1, 2015 and ending December 31, 2016. The City will make quarterly payments to the Developer from sales tax revenues at an amount equal to 50 percent of sales taxes generated not to exceed a cumulative amount of $700,000 paid by the City and $800,000 paid by the IDC beginning after the grocery store opens to the public. For the year ended September 30, 2017, the total amount of taxes abated were $216,720 for the City.

Property Taxes

The City has entered into property tax abatement agreements (the "Agreements") with several developers (the "Developers") as authorized by Chapter 380 of the Texas Local Government Code.

Under each Agreement, the developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their property taxes abated. The minimum limitation value varies by Agreement. The City has property tax abatements with the following Developers. Each Agreement provides for recapture in the event of material breach. The following summarizes the current Agreements:

- The Developer constructed a commercial and mixed-use development of approximately 160.56 acres of land for the purpose of promoting economic development in the City and stimulating business and commercial activity. In exchange, the City will pay the company an amount annually equal to 70 percent of all property taxes received by the City related to the property in each tax year starting the first tax year following a transition period as outlined in the Agreement for a period of 25 years or until $4,117,000 of the economic development grant is paid. For the year ended September 30, 2017, the total amount of taxes abated were $151,458 for the City.

- The Developer agrees to construct a manufacturing facility of approximately 240,000 square-feet for the purpose of promoting economic development in the City and stimulating business and commercial activity. The City has granted the Developer a tax limitation for a period of 15 years. In order to be eligible to receive the limitation, the Developer agrees to make an investment of $80 million that increases total taxable assessed value of at least $35 million by January 2017 and $50 million by January 2018. In addition, the Developer must meet certain employment conditions. The City will make annual payments to the Developer from property tax revenues at an amount equal to 80 percent, 60 percent, and 50 percent of total taxable assessed value for years one through five, six through eight, and nine through fifteen, respectively.

Financial Advisory Services
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