

OFFICIAL STATEMENT

Dated: April 16, 2019

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date of initial delivery of the Bonds, subject to the matters described under "TAX MATTERS" herein.

\$7,320,000
TOWN OF LITTLE ELM, TEXAS
(Denton County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019

Dated Date: April 15, 2019

Obligations Due: February 1, as shown on page ii

The Town of Little Elm, Texas (the "Town" or the "Issuer") \$7,320,000 General Obligation Refunding Bonds, Series 2019 (the "Bonds") are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, an ordinance (the "Ordinance") adopted by the Town Council, and the Town's Home Rule Charter. (See "THE BONDS - Authority for Issuance" herein.)

The Bonds constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the Town, within the limits prescribed by law. (See "THE BONDS - Security for Payment" herein.)

Interest on the Bonds will accrue from April 15, 2019 (the "Dated Date") as shown above and will be payable on February 1, 2020, and on each August 1 and February 1 thereafter until maturity, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds 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 (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in principal amounts of \$5,000 or any integral multiple thereof within a maturity. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to DTC, 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 Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the Town's outstanding debt as identified in Schedule I hereto (the "Refunded Obligations"), for debt service savings, and (ii) pay the costs of issuance of the Bonds. (See "THE BONDS - Use of Bond Proceeds" herein.)

STATED MATURITY SCHEDULE
(On Page ii)

*The Bonds are offered for delivery, when, as and if issued and received by **IFS Securities, Inc.** (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. (See Appendix C – Form of Legal Opinion of Bond Counsel.) (See "OTHER PERTINENT INFORMATION - Legal Opinion and No-Litigation Certificate" herein). It is expected that the Bonds will be available for delivery through DTC on or about May 15, 2019.*

STATED MATURITY SCHEDULE

(Due August 1)

Base CUSIP – 537095

<u>Stated Maturity August 1</u>	<u>Principal Amount</u>	<u>Initial Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP Suffix^(a)</u>
2020	\$ 525,000	4.000	1.600	UW9
2021	625,000	4.000	1.650	UX7
2022	655,000	4.000	1.700	UY5
2023	690,000	4.000	1.750	UZ2
2024	725,000	4.000	1.800	VA6
2025	760,000	3.000	1.850	VB4
2026	790,000	3.000	1.950	VC2
2027	820,000	3.000	2.000	VD0
2028	850,000	3.000	2.100	VE8
2029	880,000	3.000	2.200	VF5

(Interest to accrue from the Dated Date)

The Bonds are not subject to redemption prior to their stated maturity. (See “THE BONDS – No Redemption Provisions” herein.)

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (“CGS”), managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Town nor the Financial Advisor is responsible for the selection or the correctness of the CUSIP numbers set forth herein.

TOWN OF LITTLE ELM, TEXAS
100 West Eldorado Parkway
Little Elm, Texas 75068
214-975-0405

ELECTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>On Council Since</u>	<u>Term Expires May</u>	<u>Occupation</u>
David M. Hillock	Mayor	2012	2021	Technology Industry - Cloud Based Services
Neil Blais	Mayor Pro Tem	2015	2021	Business Owner
James Dominy	Council Member	2013	2019	Organizational Director
Chip Norman	Council Member	2012	2019	Director of Business Operations-Medical Practice
Nick Musteen	Council Member	2015	2021	Director of Sales, Consumer Packaged Goods
Curtis Cornelious	Council Member	2017	2020	Vice President of Operations
Stephanie Shoemaker	Council Member	2014	2020	Office Admin - Lordane

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Years of Municipal Experience</u>
Matt Mueller	Town Manager	19 years
Doug Peach	Deputy Town Manager	33 years
Karla Stovall	Chief Financial Officer	16 years
Dianne Lawson	Assistant Director of Finance	26 years
Kathy Phillips	Town Secretary	31 years
Robert F. Brown	Town Attorney (Appointed)	32 years
Kevin Mattingly	Public Works Director	36 years
Jennette Killingsworth	Executive Director Little Elm EDC (Appointed)	12 years
Rodney Harrison	Police Chief	27 years
Joe Florentino	Assistant Town Manager/Director of Public Safety	25 years
Brian Roach	Fire Chief/Fire Marshall	25 years
Chad Hyde	Parks Director	20 years
Deidre Hale	Human Resource Manager	20 years

CONSULTANTS AND ADVISORS

Bond Counsel	Norton Rose Fulbright US LLP Dallas, Texas
Financial Advisor	SAMCO Capital Markets, Inc. San Antonio, Texas
Certified Public Accountants	Weaver and Tidwell LLP Dallas, Texas

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information must not be relied upon.

Certain information set forth herein has been provided by sources other than the Town that the Town believes to be reliable, but the Town makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Town's undertaking to provide certain information on a continuing basis.

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

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

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The cover page, subsequent pages hereof and appendices attached hereto, are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds 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 Town of Little Elm, Texas (the "Town" or "Issuer") is a political subdivision of the State of Texas located in Denton County, and is a municipal corporation organized and existing under the laws of the State. The Town is a home-rule municipality operating under the council-manager form of government, governed by a mayor and six-member council as provided in the home-rule charter. The Town's population, as established by the 2010 U.S. Census, was 25,898. The Town's current population estimate is 44,372. (See "APPENDIX B - GENERAL INFORMATION REGARDING THE TOWN OF LITTLE ELM AND DENTON COUNTY, TEXAS" herein.)
The Bonds	The Bonds are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended, an ordinance (the "Ordinance") adopted by the Town Council, and the Town's Home Rule Charter. (See "THE BONDS - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas.
Security	The Bonds constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the Town, within the limits prescribed by law. (See "THE BONDS - Security for Payment" herein.)
No Optional Redemption	The Bonds are not subject to redemption prior to their stated maturity.
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds 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. (See "TAX MATTERS" and APPENDIX C - FORM OF LEGAL OPINION OF BOND COUNSEL" herein.)
Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) refund a portion of the Town's outstanding debt as identified in Schedule I hereto (the "Refunded Obligations"), for debt service savings, and (ii) pay the costs of issuance of the Bonds. (See "THE BONDS - Use of Bond 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 Bonds will be made to the beneficial owners of the Bonds. Such Book-Entry-Only System may affect the method and timing of payments on the Bonds and the manner the Bonds may be transferred. (See "Book-Entry-Only System" herein.)
Ratings	S&P Global Ratings ("S&P") has assigned a rating of "AA" to the Bonds. An explanation of the significance of such rating may be obtained from the rating agency. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
Issuance of Additional Debt	The Town intends to issue \$7,000,000 (preliminary; subject to change) Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (the "Certificates") within the next 120 days.
Payment Record	The Town has never defaulted on the payment of its debt.
Delivery	It is anticipated the Bonds will be available for delivery through DTC on or about May 15, 2019.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas.

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INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by Town of Little Elm, Texas (the "Town" or "Issuer") of its \$7,320,000 General Obligation Refunding Bonds, Series 2019 (the "Bonds") 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 Bonds are being issued pursuant to the Constitution and general laws of the State, an ordinance (the "Ordinance" or the "Bond Ordinance") adopted by the Town Council authorizing the issuance of the Bonds, and the Town's Home Rule Charter. (See "THE BONDS - 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 Bonds 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.

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 Bonds 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 Town's undertaking to provide certain information on a continuing basis

PLAN OF FINANCING FOR THE BONDS

Purpose

The Bonds are being issued (i) to refund all of the outstanding debt obligations described in Schedule I to this Official Statement (the "Refunded Obligations") to achieve debt service savings (see "SCHEDULE I - SCHEDULE OF REFUNDED OBLIGATIONS"); and (ii) to pay the costs related to the issuance of the Bonds.

Refunded Obligations

The Refunded Obligations are being redeemed on the date set forth in Schedule I hereto (the "Redemption Date"). The principal and interest due on the Refunded Obligations are to be paid on the Redemption Date from funds to be deposited pursuant to a certain escrow agreement (the "Escrow Agreement") with BOKF, NA (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds and other available funds of the Town, if any, the Town will deposit with the Escrow Agent the amount that will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their Redemption Date. Prior to the Redemption Date, such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and such funds may be either (i) held uninvested in the Escrow Fund, or (ii) used to purchase direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Ritz & Associates PA, will verify at the time of delivery of the Bonds to the initial purchaser of the Bonds that the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the debt service on the Bonds (see "OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations").

By the deposit of the Escrowed Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the Town will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report or Ritz & Associates PA, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the Town.

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Sources and Uses of Funds

The proceeds from the sale of the Bonds, along with a cash contribution from the Town (if any), will be applied approximately as follows:

Sources	
Par Amount of the Bonds	\$ 7,320,000.00
Accrued Interest on the Bonds	20,983.33
Premium/Discount on the Bonds	531,519.05
Issuer Contribution	<u>184,528.96</u>
Total Sources of Funds	<u>\$ 8,057,031.34</u>
Uses	
Escrow Fund Deposit	\$ 7,878,498.10
Purchaser's Discount	32,940.00
Bond Fund Deposit	20,983.33
Costs of Issuance	<u>124,609.91</u>
Total Uses	<u>\$ 8,057,031.34</u>

THE BONDS

General Description

The Bonds will be dated April 15, 2019 (the "Dated Date"). The Bonds are stated to mature on August 1 in the years and in the principal amounts set forth on page ii hereof. The Bonds shall bear interest from their Dated Date on the unpaid principal amounts, and the amount of interest to be paid with respect to each payment period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will be payable on February 1, 2020, and on each August 1 and February 1 thereafter, until maturity. Principal is payable at the designated offices of the Paying Agent/Registrar for the Bonds, initially BOKF, NA, Dallas, Texas; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. Interest on the Bonds shall be paid to the registered owners whose names appear on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (as hereinafter defined) and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to be closed, 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.

Initially, the Bonds 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 Bonds will be made to the Beneficial Owners. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts received to the appropriate DTC Participants, who shall in turn make payment to the Beneficial Owners of the Bonds. Such Book-Entry-Only System may change the method and timing of payment for the Bonds and the method of transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended, the Town's Home Rule Charter and the Bond Ordinance.

Security for Payment

The Bonds constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the Town, within the limits prescribed by law.

Tax Rate Limitations

All taxable property within the Town is subject to the assessment, levy and collection by the Town of a continuing, direct ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limit prescribed by law. Article XI, Section 5, of the Texas Constitution applicable to cities of more than 5,000 population is applicable to the Town, and limits the maximum ad valorem tax rate of the Town to \$2.50 per \$100 taxable assessed valuation for all Town purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection factor.

Use of Bond Proceeds

Proceeds from the sale of the Bonds will be used to (i) refund the Town's outstanding debt identified in Schedule I hereto (the "Refunded Obligations"), for debt service savings, and (ii) pay the costs of issuance of the Bonds.

No Redemption Provisions

The Bonds are not subject to redemption prior to their stated maturity.

Payment Record

The Town has never defaulted on the payment of its debt.

Legality

The Bonds are offered when, as and if issued, subject to the approvals of legality by the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Dallas, 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 Bonds when the payment of the principal of and premium, if any, on the Bonds, 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) Government Obligations 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 Bonds. The Ordinance provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the Town are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities of obligations that may be used to defease obligations such as the Bonds under the then applicable laws of the State of Texas. 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 Bonds. 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 Government Obligation will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds 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 Bonds have been made as described above, all rights of the Town to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such Bonds for redemption is not extinguished if the Town: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments to the Ordinance

The Town may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein.

In addition, the Town may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium if any and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor or the rate of interest thereon or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bonds or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescission.

Default and Remedies

The Ordinance does not provide or specify remedies with regard to an event of default. Upon the occurrence of an event of default, the registered owners may seek a writ of mandamus to compel the Town officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the Town'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 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the Town to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. 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. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the Town's sovereign immunity from a suit for money damages, owners of the Bonds may not be able to bring such a suit against the Town for breach of the covenants in the Ordinance or the Bonds. Even if a judgment against the Town could be obtained, it could not be enforced by direct levy and execution against the Town's property. Further, the registered owners cannot themselves foreclose on property within the Town or sell property within the Town to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the Town is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the Town avail itself of Chapter 9 protection from creditors, the ability to enforce remedies 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Bonds 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 Bonds.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, 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 Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

The Bonds 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 to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (as defined below) by check or such other method acceptable to the Paying Agent/Registrar mailed on February 1, 2020, and on each August 1 and February 1 thereafter until maturity of the Bonds, by the Paying Agent/Registrar to the last known address of the registered owner 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 of a Bond will be paid to the registered owner at its stated maturity or its prior redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long

as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Bond 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 a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond 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 Bonds are initially to be issued utilizing the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"). In the event such Book-Entry-Only System should be discontinued, printed certificates will be issued to the owners of the Bonds and thereafter, the Bonds 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 Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds 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 Bonds issued in an exchange or transfer of Bonds 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 Bonds 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 Bonds 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 Bond or Bonds 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 Bonds.)

Limitation on Transferability

The Paying Agent/Registrar shall not be required to transfer or exchange any Bonds 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. Neither the Issuer nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond during the period commencing with the close of business on any Record Date immediately preceding a principal or interest payment date for such Bond and ending with the opening of business on the next following principal or interest payment date; or with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Bond.

Replacement Bonds

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds 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 Issuer or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent/Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Issuer or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered. (See "REGISTRATION, TRANSFER, AND EXCHANGE" herein.)

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Town, the Financial Advisor, or the initial purchaser of the Bonds.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds 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 Direct or Indirect Participant acquires an interest in the Bonds, 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 Ordinances will be given only to DTC.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE ISSUER

The Town invests funds in instruments authorized by Texas law in accordance with investment policies approved by the Town Council. The Town Council, along with and the Boards of Directors of the Little Elm Economic Development Corporation, the Little Elm Community Development Corporation and the Little Elm Redevelopment Authority (collectively, the "Corporations") appoint the Town's Finance Director, Assistant Finance Director, and the Senior Accountant as the Investment Officers for the Town and the Corporations. Direct management responsibility for the investment program of each of the entities is delegated by the respective governing body to the Investment Officers. The Investment Officers' authority will at all times be limited by all applicable laws and regulations in effect. Both State law and the Town's investment policies are subject to change.

Available Town funds are invested as authorized by Texas law and in accordance with investment policies approved by the Town Council. Both State law and the Town's investment policies are subject to change. Under State law, the Town is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State 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 its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for Town deposits, or (ii) where (a) the funds are invested by the Town through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the Town as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the Town; (b) the broker or the depository institution selected by the Town arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Town; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Town appoints the depository institution selected under (a) above, 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 Town with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the Town, held in the Town's name, and deposited at the time the investment is made with the Town or with a third party selected and approved by the Town and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable

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

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

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

Under Texas law, the Town's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and probable income to be derived." At least quarterly the Town's investment officers must submit an investment report to the Town Council detailing: (1) the investment position of the Town, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 strategies and (b) Texas law. No person may invest Town funds without express written authority from the Town Council.

Under Texas law, the Town is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Town Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Town to: (a) receive and review the Town's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Town and the business organization that are not authorized by the Town's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Town's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Town and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Town's investment policy; (6) provide specific investment training for the Town's designated Investment

Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the Town's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Town.

Current Investments

As of September 30, 2018, all the Town's investable funds in the amount of \$84,609,287 were invested in checking and money market accounts with the Town's depository bank.

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

EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Town participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' 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 (CFAR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

At the date the plan began, the Town granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the Town can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and Town matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service. A member is vested after 5 years. The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	39
Inactive employees entitled to but not yet receiving benefits	124
Active employees	<u>232</u>
	<u>395</u>

Contributions

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

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 13.61% and 13.54% in calendar years 2017 and 2018, respectively. The Town's contributions to TMRS for the year ended September 30, 2018 were \$2,201,774, and were equal to the required contributions.

The Town's Net Pension Liability (NPL) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

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

Discount Rate

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

The Town's net pension liability, pension expense, and deferred outflows of resources related to TMRS have been allocated between governmental activities and business-type activities using a contribution-based method.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) plan fiduciary net position (b)	Net pension liability (a) – (b)
Balance at 12/31/2016	\$ 28,824,927	\$ 23,012,963	\$ 5,811,964
Changes for the year:			
Service Cost	2,626,348	-	2,626,348
Interest	2,023,022	-	2,023,022
Change of benefit terms	-	-	-
Difference between expected and actual experience	(90,555)	-	(90,555)
Changes of assumptions	-	-	-
Contributions – employer	-	1,968,224	(1,968,224)
Contributions - employee	-	1,021,378	(1,021,378)
Net investment income	-	3,194,579	(3,194,579)
Benefit payments, including refunds of employee contributions	(334,803)	(334,803)	-
Administrative expense	-	(16,529)	16,529
Other changes	-	(838)	838
Net Changes	<u>4,224,012</u>	<u>5,832,011</u>	<u>(1,607,999)</u>
Balance at 12/31/2016	\$ 33,048,939	\$ 28,844,974	\$ 4,203,965

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease In Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase In Discount Rate (7.75%)
Net pension liability	\$ 10,231,018	\$ 4,203,965	\$ (620,592)

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 at www.tmr.com.

The general fund has typically been used to liquidate pension liabilities related to governmental activities.

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

For the year ended September 30, 2018, the Town recognized pension expense of \$2,197,559. At September 30, 2018, the Town 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	\$ 493,522	\$ 75,462-
Changes in actuarial assumptions	47,522	-
Difference between projected and actual investment earnings	-	798,285
Contributions subsequent to the measurement date	<u>1,707,061</u>	-
Total	<u>\$ 2,248,105</u>	<u>\$ 873,747</u>

The \$1,707,061 reported as deferred outflows of resources related to pensions result from contributions subsequent to the measurement date and will reduce the net pension liability during the fiscal year ended September 30, 2019. The other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended Sept. 30:	Net deferred Outflows (inflows) of resources
2019	\$ 105,577
2020	67,335
2021	(213,811)
2022	(279,175)
2023	(12,629)
Thereafter	-
	<u>\$ (332,703)</u>

AD VALOREM TAX PROCEDURES

Texas Tax Code and Countywide Appraisal District

Title I, Texas Tax Code, as amended (the "Property Tax Code"), provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Denton County Appraisal District (the "Appraisal District") is responsible for appraising property within the Town, generally, as of January 1 of each year. Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Article VIII of the State Constitution ("Article VIII") and State law limit the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office, or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, plus (b) the property's appraised value for the preceding tax year, plus (c) the market value of all new improvements to the property. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board (the "Appraisal Review Board") consisting of members appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the Town in establishing its tax roll and tax rate. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The Town may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the Town by petition filed with the Appraisal Review Board.

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions and appraisals of property not previously on an appraisal roll. Article VIII, Section 21 of the Texas Constitution provides that, subject to any exception prescribed by general law, the total amount of property taxes imposed by a political subdivision in any year may not exceed the total amount of property taxes imposed in the preceding year unless a notice of intent to consider an increase in taxes is given and two public hearings on the proposed increase are held before the total taxes are increased. See "AD VALOREM TAX PROCEDURES - Effective Tax Rate and Rollback Tax Rate", herein.

Property Subject to Taxation by the Issuer

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

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

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

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

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

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

Homestead Tax Limitation: Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements (other than repairs or improvements required to comply with governmental requirements) and such freeze is transferable to a different residence homestead and to the surviving spouse living in such homestead if (1) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (2) the surviving spouse was 55 or older when the deceased spouse died and (3) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following year. Once established such freeze cannot be repealed or rescinded.

Disabled/Deceased Veterans Exemption: State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse (for so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

Freeport Exemption: Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Goods in Transit: Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation of "goods-in-transit", which are defined as (i) personal property acquired or imported into the State and transported to another location inside or outside the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location inside or outside the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory.

Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding a public hearing, a taxing unit may take official action prior to January 1 of the first tax year

in which the governing body proposes to tax goods-in-transit. After taking such official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body of the taxing units rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt, taxes may continue to be imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligations of the contract by which the debt was created.

For a discussion of how the various exemptions described above are applied by the Town, see "TOWN APPLICATION OF THE PROPERTY TAX CODE" herein.

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

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

Chapter 380 Agreements: The Town is also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the Town. In accordance with a program established pursuant to Chapter 380, the Town may make loans or grants of public funds for economic development; provided, however, that no obligations secured by ad valorem taxes may be issued for such purposes unless approved by the voters of the Town. The Town may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

Effective Tax Rate and Rollback Tax Rate

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt its annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Furthermore, said Section 26.05 of the Property Tax Code provides that the Town council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the Town's website if the Town owns, operates or controls an internet website and public notice be given by television if the Town has free access to a television channel) and the Town Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the taxing unit 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.

The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. Under the Property Tax Code, the Town must annually calculate and publicize its "effective tax rate" and "rollback tax rate".

"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.

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

Levy and Collection of Taxes

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Property within the Town is generally assessed as of January 1 of each year based upon the valuation of property within the Town as of the preceding January 1. 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 contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes are due October 1,

or when billed, whichever comes later, and become delinquent after January 31 of the following year. The Property Tax Code makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and final installment due on August 1.

Penalties and Interest

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

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

^(a) After July, the penalty remains at 12% and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition the taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee of up to 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.

In general, property subject to the Town's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Issuer's Rights in the Event of Tax Delinquencies

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

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

2019 Legislative Session

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. The Town can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

TOWN'S APPLICATION OF THE PROPERTY TAX CODE

The Town grants an optional exemption of \$10,000 to the market value of the residence homestead of persons 65 years of age or older and the disabled. See Appendix A – Table 10 for a listing of the total amount of these exemptions.

The Town does not grant an additional exemption of up to 20% for residence homesteads.

The Town taxes business personal property.

The Denton County Tax Collector collects property taxes for the Town.

The Town does not permit discounts or split payments, except in the case of persons over 65 or disabled who are permitted to pay taxes on homesteads in four installments. The first installment is due on February 1 of each year and the final installment is due on August 1.

The Town grants the Article VIII, Section 1-j property ("freeport property") exemption but currently has no property in this category.

The Town does not exempt "goods-in-transit".

The Town currently has one active abatement agreement with Holt Caterpillar which will expire tax year 2019.

The Town currently has four tax increment reinvestment zones.

The Town has created four public improvement districts.

On May 3, 2005, voters of the Town approved the adoption of the tax freeze described above under "Homestead Tax Limitation". The 2006 Tax Year was the first year for the Town to have a value loss to the freeze. See Appendix A - Table 10 for the freeze loss amounts.

The Town has entered into several Chapter 380 agreements regarding developments in the Town.

The Town participates in several Tax Increment Reinvestment Zones ("TIRZ"). See ECONOMIC DEVELOPMENT PROGRAMS - "Little Elm Tax Increment Reinvestment Zones and Public Improvement District".

ECONOMIC DEVELOPMENT PROGRAMS

General

Economic development incentives are offered on a project by project basis commensurate with the quality and character of the development and the extent to which it contributes to Town character and quality of life. The Town is authorized pursuant to State law, including Chapter 380, earlier defined, to establish programs to promote state or local economic development and to stimulate business and commercial activity in the Town. In accordance with a program established pursuant to Chapter 380, the Town may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the Town. The Town may contract with the federal government, the State of Texas, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program. Economic development incentives may include the creation of one or more public improvements districts ("PIDs") to fund public improvements that benefit certain designated areas. Special assessments are levied on the benefited property to pay the costs of the public improvements or pledged to the payment of bonds or other obligations issued to fund the public improvements.

Little Elm Tax Increment Reinvestment Zones and Public Improvement District

The Town Council created and participates in a total of four Tax Increment Reinvestment Zones ("TIRZ") (#3, #4, #5, and #6). The two original TIRZ created in 2008 referred to as TIRZ #1 and TIRZ #2 were terminated in November 2013. Subsequent to the creation of the two TIRZ zones, the Council on February 3, 2009 authorized and established the creation of the Little Elm Redevelopment Authority ("LERA"). The LERA was dissolved in February 2014. Upon the termination of TIRZ #1 in 2013, the Town created TIRZ #3 for the "Lakefront District" which consists of approximately 847 acres and has a base taxable assessed value of \$46,554,879.

The Town Council created TIRZ #4 in December 2013 for the Valencia on the Lake multi-phase residential development of approximately 447.942 acres. The Town also created the Valencia Public Improvement District ("Valencia PID") in September 2013 to finance certain public infrastructure improvements. The Valencia PID and the TIRZ# 4 boundaries are contiguous as the goal of the TIRZ# 4 is to assist with the development. The Town issued two series of special assessment revenue bonds (the "Valencia PID Bonds") in the amounts of \$12,240,000 and \$4,000,000 in February 2014 that are secured solely from assessment revenues generated within the Valencia PID. The bonds funded major improvement projects to include certain roadway, water, wastewater and drainage improvements. On November 6, 2018 the Town issued three series of bonds for the Valencia PID. The first series of revenue bonds refunded the 2014 Phase #1 Bonds, refinanced the Phase #1 reimbursement agreement portion of

the 2014 bonds and restructured the debt service requirements by passage of Ordinance No.1445. The second series of revenue bonds were identified as the Improvement Area #2 Refunding and Improvement Bonds and were issued to refund a portion of the 2014 bonds used to finance improvements related to Improvement Area #2, refinance the pro rata portion of the Phase #2 local improvements and financed additional improvements relating in Improvement Area #2 through Ordinance No. 1446. The Major Improvement Area Refunding Bonds were the third series of bonds issued in FY2018 through Ordinance No. 1447. They were to refund the pro-rata portion of the 2014 Major Improvement Bonds related to Phases #2B, #3B, and #4.

The Town Council created TIRZ #5 in December 2014 with a base value of Real Property of \$6,728,553. The TIRZ #5 zone has removed sections and added additional property to create the existing 943.5 acre zone. The Hillstone Pointe PID No. 2 was created in June 2015. It is located at the northern section of TIRZ #5 and its boundaries are not contiguous. TIRZ #5 and Hillstone Pointe PID No. 2 are located near the 380 Corridor within the newly annexed area on the northern boundary of the Town of Little Elm. The Town issued \$6,000,000 in special assessment revenue bonds (the "Hillstone PID Bonds") for Phases #1-1a thru approval of Ordinance No. 1422 on October 17, 2017. The Hillstone PID Bonds are secured solely from assessment revenues generated within the Hillstone Pointe PID No. 2. The Hillstone PID Bonds funded Phase 1 and Phase 1A improvements which included certain roadway, water system, storm drainage, sanitary sewer, screening and landscaping and other soft and miscellaneous improvements. The Town issued the next set of Hillstone PID Bonds for the Hillstone Pointe PID No. 2 Phases 2 and 3 through Ordinance No. 1471.

The Town's third PID was created by the Town on October 2016 identified as the Rudman Tract Public Improvement District ("Rudman PID") to finance the costs of certain public improvements for the benefit of property in that PID. TIRZ #6 was created in November 2016 to be contiguous with the Rudman Tract to help the area develop. The area encompasses 146.8 acres. The Town approved reimbursement obligations to finance the public improvements provided for the benefit of the property in the Rudman PID. Phase #1 Reimbursement Agreement of \$7,300,000 and Phase #2 Major Improvements Reimbursement Agreement of \$2,075,000 are secured by special assessments. The Town consented to the assignment of the reimbursement amounts between the OPLE Prairie Oaks Development, Inc. and the Public Finance Authority ("PFA") in May 2017. Bonds were issued by the Wisconsin PFA for the development in May 2017 secured by such reimbursement amounts.

The Town on December 20, 2016 created the fourth PID for the Town of Little Elm. This PID is located at the Town's northern border next to Highway 380 and will be identified as Lakeside Estates PID No. 2 ("Lakeside PID"). A TIRZ was not approved to assist with the development of this project. The Town authorized the issuance and sale of special assessment revenue bonds, Series 2017 in December 2017 for \$4,700,000. The bonds funded improvements which included certain roadway, water distribution system, storm drainage, sanitary sewer, screening and other Lakeside PID Bond issuance costs.

The TIRZ and PID's in respect to their duration and the projects to be undertaken and other terms and conditions are set forth in the respective ordinances creating such zones and the public improvement districts. Although current plans provide that project costs for the zones will be paid or reimbursed from tax increments as collected, the Town may determine at a future date to issue bonds or other obligations secured by or payable in whole or in part from tax increment revenues. The owners of the PID Bonds do not have the right to demand payment from any funds of the Town other than the pledged revenues, consisting primarily of assessments levied and collected against the property within the specific PID, and the Town has no obligation to pay the PID Bonds from any other source.

Tax Abatements

The Town enters into economic development agreements designed to promote development, stimulate commercial activity, enhance the property tax base, and increase the economic vitality. These programs rebate property taxes and sales tax. The Town's economic development agreements are authorized under the Texas Local Government Code Chapter 311 (Tax Increment Financing Act) and Chapter 380 (Economic Development Programs). Recipients may be eligible to receive economic assistance based upon employment impact, economic or community impact of the project requesting assistance. Recipients receiving assistance generally commit to building or remodeling real property and related infrastructure, expanding operations, renewing facility leases or bringing targeted development to the Town. Agreements generally contain recapture provisions which may require repayment or termination if recipients do not meet the required provisions of the economic incentives.

The Town has two categories of economic development agreements:

A. General Economic Development

The Town enters into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. Agreements may rebate a flat amount or a percentage of property taxes or sales tax received by the Town. For fiscal year 2018, the Town rebated \$329,467 in sales taxes and \$290,432 of property taxes.

B. Tax Increment Financing

Tax Increment Financing (TIF) is a tool to help finance public improvements and development projects within a defined area. A municipality makes an area eligible for TIF by designating it a Tax Increment Reinvestment Zone (TIRZ). Within the designated zone all of the incremental tax revenue growth flows to an established tax increment fund to help pay for public improvements within the zone. The Town has adopted four tax increment reinvestment zones in accordance with the provisions of the Tax

Increment Financing Act, V.T.C.A., Tax Code, Chapter 311. The four active tax increment reinvestment zones include TIRZ #3, #4, #5 and #6. The purpose of TIRZ #3 is to help pay for project costs associated with the development of the Town's Lakefront District. The TIRZ #3's projected costs are primarily related to park and park improvements, streets, a conference center, utilities, a recreation center, landscaping, trails, a plaza and lighting. TIRZ #4, #5 and #6 were created to facilitate the development of the currently vacant land with retail and single family developments while creating a unique cohesive development that builds on the high development standards already established within the Town. Specific project costs may include but are not limited to roads, water, sewer and storm water management. In fiscal year 2018, the Town made \$547,937 in payments to the TIRZ funds. Denton County agreed to participate in TIRZ #3 for a period of five years and contributed \$39,812 in fiscal year 2018.

Sales Tax and Other Revenue have been contractually obligated to encourage economic development of the Town. The Holt Caterpillar receives a Sales Tax incentive in addition to a reduction in fees. Other strategic partnership agreements include Denton County Fresh Water Supply District #8-B and #8-C to provide for a limited purpose annexation of a portion of the development within said District designated for commercial usage. District #8-B and District #8-C each receive sales and use tax revenues within this limited purpose annexation area. This agreement will terminate upon this dis-annexation or full purpose annexation of the property. The Town has also entered into Chapter 380 agreements with home builders to encourage programs for grants of public money to promote the local economic development and stimulate business and commercial activity in the Town. Current home builders with active 380 agreements include Landon Homes, Pulte Homes, Highland Homes, and First Texas Homes. All are 10 year agreements. The businesses are engaged in the business of purchasing building materials for its use on construction projects within the Town. The Town also has strategic partnerships and/ or 380 agreements with other residential and commercial developers to aid in the development of the Town of Little Elm. Many are in areas that have not developed but are in process. These agreements utilize a percentage of Sales Tax reimbursement and a waiving of fees associated with development.

Development within Extraterritorial Jurisdiction

The Town is exploring various economic development projects for the Town. The Town has entered into agreements regarding development within the Town's extraterritorial jurisdiction ("ETJ"). The Town may also enter into agreements to provide one or more economic development incentive agreements for projects within the Town or its ETJ.

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

The Town has adopted the provisions of Chapter 34 or the Tax Code, as amended, which provides for the maximum levy of a one percent sales tax which may be used by the Town for any lawful purpose except that the Town may not pledge any of the anticipated sales tax revenue to secure the payment of the Bonds or other indebtedness. Net collections on a fiscal year basis are shown in Table 15 of Appendix A.

Optional Sales Tax

The Tax Code provides certain cities and counties the option of levying additional sales taxes for various purposes, including property tax reduction and economic development, provided that the total of all local sales taxes cannot exceed two percent.

At an election held on January 16, 1993, registered voters of the Town approved the imposition of an additional one-half percent (½%) sales tax to be used for economic development purposes in accordance with Chapter 504, Texas Local Government Code as amended. Levy of the 4A sales tax began on June 1, 1993.

The Town held a successful election on May 7, 2005 for the purpose of approving an increase in its sales tax by an additional one-quarter percent (¼%), to be used for street maintenance. Collections of the additional ¼% sales tax began on October 1, 2005. On May 9, 2009 and then again on May 6, 2017 the Town had successful elections for the purpose of continuing the one-quarter percent (¼%) sales tax for street maintenance.

The Town also held a successful election May 12, 2007, for the purpose of approving a one-quarter percent (¼%) sales tax to be used for community development purposes in accordance with Chapter 504, Texas Local Government Code as amended. Collection of the additional 4B ¼% sales tax began October 1, 2007.

The optional sales tax revenues are not pledged to the payment of the Bonds.

Hotel Occupancy Tax

The Town passed a 7% Hotel Occupancy Tax on December 18, 2007, which took effect on January 1, 2008. The revenue derived from the Hotel Occupancy Tax may only be expended to directly enhance and promote tourism and the Town's convention and hotel industry. Hotel Occupancy Tax revenue may not be used as general revenue for general governmental operations of the Town, and it is not pledged to the payment of the Bonds.

TAX MATTERS

Tax Exemption

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

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

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

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

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

Tax Accounting Treatment of Discount and Premium on Bonds

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

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for

the earned income tax credit, owners of an interest in a FASIT and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the Town has made the following agreements for the benefit of the holders and beneficial owners of the Bonds. The Town is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreements, the Town 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 Issuer will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in this Official Statement under "INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE ISSUER - Current Investments" herein and the information in Tables 1, 2, 6, 12, 13, 14, 15, 16, 21, 22, 23, 24, 25 and 26 of Appendix A. The Issuer will update and provide this information within six months after the end of each fiscal year ending in and after 2019. The Issuer will additionally provide audited financial statements within 12 months after the end of each fiscal year ending in or after 2019. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the Issuer will file unaudited financial statements by the required time and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the Issuer may be required to employ from time to time pursuant to State law or regulation.

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

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

Notice of Certain Events

The Town will also provide timely notices of certain events to the MSRB. The Town will provide notice of any of the following events with respect to the Bonds 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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Town, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Town 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; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the Town, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Town, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Town, any of which reflect financial difficulties. In addition, the Town will provide timely notice of any failure by the Town to provide annual financial information or operating data in accordance with their agreement described above under "Annual Reports".

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

For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

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 certain 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds. 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 Bonds in the primary offering of the Bonds 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 Issuer has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds 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 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds 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 Town officials, 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 Town.

Future Debt Issuance

The Town intends to issue \$7,000,000 (preliminary amount) Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 with the next 120 days.

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 Bonds 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 Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds 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 Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivision, and are legal security for those deposits to the extent of their fair market value. No review by the Town has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The Town 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 Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Bonds for such purposes.

Additionally, with respect to the Bonds, Section 271.051 of the Texas Local Government Code expressly provides that certificates of obligation approved by the Attorney General of Texas are legal authorized investments for banks, savings banks, trust companies, and savings and loan associations, insurance companies, fiduciaries, trustees, and guardians, and sinking funds of municipalities, counties, school districts, or other political corporations or subdivisions of the State. The Bonds are eligible to secure deposits of any public funds of the State, municipalities, school and other political subdivisions of the State, and are legal security for those deposits to the extent of the market value.

Ratings

S&P Global Ratings ("S&P") has assigned a rating of "AA" to the Bonds. An explanation of the significance of such rating may be obtained from the rating agency. A rating by a rating agency reflects only the view of such company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that such a 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 Bonds.

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, as applicable, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding

obligations of the Issuer and, the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions existing on the date of the initial delivery of the Bonds, subject to the qualifications set forth herein under "TAX MATTERS." The customary closing papers, including certificates to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Notice of Sale, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the Issuer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Though it represents the Financial Advisor and certain entities that may bid on the Bonds from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the Town in connection with the issuance of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering legal opinions 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 from the transaction.

Winning Bidder

On April 16, 2019, the Bonds were awarded to IFS Securities, Inc. (the "Purchaser") through a competitive bid process. The initial reoffering yields were supplied to the Town by the Purchaser. The initial reoffering yields shown on page ii of the Official Statement will produce compensation to the Purchaser of approximately \$32,940.00.

Verification of Arithmetical and Mathematical Computations.

Ritz & Associates PA will deliver to the Town, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Ritz & Associates PA relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the Town. In addition, Ritz & Associates PA has relied on any information provided to it by the Town's retained advisors, consultants or legal counsel.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds 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 Bonds.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Purchaser, will be furnished a certificate executed by the proper officials of the Town acting in their official capacity, to the effect that: (a) the descriptions and statements of or pertaining to the Town contained in its Official Statement relating to the Bonds, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of the sale of said Bonds, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the Town and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statement therein, in the light of the circumstances under which they were made, not misleading; (c) to the best of their knowledge, insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the Town and its activities, contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Town believes to be reliable and the Town has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Town since September 30, 2018, the date of the last audited financial statements of the Town, portions of which appear in the Official Statement.

The Official Statement was approved as to form and content and the use thereof in the offering of the Bonds was authorized, ratified and approved by the Town Council on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Town.

Forward-Looking Statements Disclaimer

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

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

Concluding Statement

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

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

TOWN OF LITTLE ELM, TEXAS

David M. Hillock

Mayor

Town of Little Elm, Texas

ATTEST:

Kathy Phillips

Town Secretary

Town of Little Elm, Texas

SCHEDULE I

Schedule of Refunded Obligations

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**SCHEDULE I
SCHEDULE OF REFUNDED OBLIGATIONS**

TOWN OF LITTLE ELM, TEXAS

**Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2009A
(Redemption Date 08-01-19 @ par)**

Current Interest Bonds

<u>Original Dated Date</u>	<u>Original Maturity (August 1)</u>	<u>Original Principal Amount</u>	<u>Principal Being Refunded</u>	<u>Interest Rate</u>
August 1, 2009	2020	\$ 125,000.00 ^(a)	\$ 125,000.00	5.000%
	2021	130,000.00 ^(a)	130,000.00	5.000%
	2022	135,000.00 ^(b)	135,000.00	4.500%
	2023	145,000.00 ^(b)	145,000.00	4.500%
	2024	150,000.00 ^(c)	150,000.00	4.100%
	2025	155,000.00 ^(c)	155,000.00	4.100%
	2026	165,000.00 ^(d)	165,000.00	4.300%
	2027	175,000.00 ^(d)	175,000.00	4.300%
	2028	180,000.00 ^(e)	180,000.00	4.400%
	2029	190,000.00 ^(e)	190,000.00	4.400%
		<u>\$ 1,550,000.00</u>	<u>\$ 1,550,000.00</u>	

^(a) Represents a sinking fund redemption of a term bond that matures August 1, 2021.

^(b) Represents a sinking fund redemption of a term bond that matures August 1, 2023.

^(c) Represents a sinking fund redemption of a term bond that matures August 1, 2025.

^(d) Represents a sinking fund redemption of a term bond that matures August 1, 2027.

^(e) Represents a sinking fund redemption of a term bond that matures August 1, 2029.

**General Obligation Bonds, Series 2009
(Redemption Date 08-01-19 @ par)**

Current Interest Bonds

<u>Original Dated Date</u>	<u>Original Maturity (August 1)</u>	<u>Original Principal Amount</u>	<u>Principal Being Refunded</u>	<u>Interest Rate</u>
August 1, 2009	2020	\$ 490,000.00	\$ 490,000.00	4.500%
	2021	515,000.00	515,000.00	4.000%
	2022	545,000.00	545,000.00	4.000%
	2023	570,000.00	570,000.00	4.000%
	2024	600,000.00	600,000.00	4.000%
	2025	630,000.00	630,000.00	4.100%
	2026	660,000.00	660,000.00	4.125%
	2027	695,000.00	695,000.00	4.250%
	2028	730,000.00	730,000.00	4.250%
	2029	765,000.00	765,000.00	4.375%
		<u>\$ 6,200,000.00</u>	<u>\$ 6,200,000.00</u>	

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APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

(This appendix contains quantitative financial information and operating data with respect to the Issuer. The information is only a partial representation and does not purport to be complete. For further and more complete information, reference should be made to the original documents, which can be obtained from various sources, as noted.)

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2018 Actual Market Value of Taxable Property (100% of Actual)	\$ 4,218,204,650
Less Exemptions/Losses:	
Local, Optional Over-65 and/or Disabled Homestead Exemptions	9,777,878
Disabled and Deceased Veterans' Exemptions	20,769,813
Homestead 10% Cap Adjustment	48,639,334
Productivity Value Loss	74,430,571
Prorated Exempt Property	1,019,658
House Bill 366 Exempt Property	8,683
Community Housing Development Corporation	5,186,172
Abatements	3,283,457
Pollution Control / Other	153,263
Total Exempt Property	189,079,359
Freeze Taxable Value	209,253,959
Transfer Adjustment	97,673
Value Captured by TIRZ # 3, TIRZ # 5 and TIRZ # 6	167,486,550
	<u>729,186,370</u>
2018 Freeze Adjusted Net Taxable Assessed Valuation ("FANTAV") (Less TIRZ Captured Value)	<u>\$ 3,489,018,280</u>

Source: Denton Central Appraisal District

Note: Figures above represent values at Certification.

GENERAL OBLIGATION BONDED DEBT

TABLE 2

General Obligation Debt Principal Outstanding: (As of September 30, 2018)

General Obligation Bonds, Series 2009	\$ 470,000 ^(c)
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2009A	120,000 ^(c)
General Obligation Refunding and Improvement Bonds, Series 2010	6,945,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012	3,945,000
General Obligation Refunding Bonds, Series 2012	3,390,000
General Obligation Refunding Bonds, Series 2012A	1,760,000
General Obligation Refunding Bonds, Series 2013	1,950,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013	4,815,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013A	2,475,000
General Obligation Refunding Bonds, Series 2014	3,525,000
Tax Notes, Series 2014	855,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015	8,800,000
General Obligation Refunding Bonds, Series 2016	5,510,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016	7,165,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017	11,335,000
General Obligation Refunding Bonds, Series 2017	13,550,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	<u>15,460,000</u>
Total Gross General Obligation Debt Principal Outstanding:	\$ 92,070,000

Current Issue General Obligation Debt Principal

General Obligation Refunding Bonds, Series 2019 (the Bonds)	<u>\$ 7,320,000</u>
Total Gross General Obligation Debt Principal Outstanding following the issuance of the Bonds:	<u>\$ 99,390,000</u>

Less: Self-Supporting General Obligation Debt Principal:

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2009A (100% CDC)	\$ 120,000 ^(c)
General Obligation Refunding and Improvement Bonds, Series 2010 (aprox. 7.88% WS) ^(a)	547,384
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012 (100% WS) ^(a)	3,945,000
General Obligation Refunding Bonds, Series 2012 (aprox. 49.41% WS) ^(a)	1,675,000
General Obligation Refunding Bonds, Series 2013 (100% WS) ^(a)	1,950,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013 (100% CDC)	4,815,000
General Obligation Refunding Bonds, Series 2014 (aprox. 55.74% WS) ^(a)	1,965,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016 (100% WS)	7,165,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 (100% WS)	11,335,000
General Obligation Refunding Bonds, Series 2017 (100% WS)	13,550,000
General Obligation Refunding Bonds, Series 2019 (14.84% CDC) (the Bonds)	<u>1,086,288</u>
Total Self-Supporting General Obligation Debt Principal	\$ 48,153,672

Total **Net** General Obligation Debt Principal Outstanding Following the Issuance of the Obligations \$ 51,236,328

General Obligation Interest and Sinking Fund Balance as of September 30, 2018	\$ 1,153,205
Ratio of Gross General Obligation/Special Obligation Debt Principal to 2018 FANTAV (Less TIRZ Captured Value)	2.85%
Ratio of Net General Obligation/Special Obligation Debt Principal to 2018 FANTAV (Less TIRZ Captured Value)	1.47%
2018 Freeze Adjusted Net Taxable Assessed Valuation ("FANTAV") (Less TIRZ Captured Value) ^(b)	\$ 3,489,018,280
Population: 1980 - 926; 1990 - 1,308; 2000 - 3,646; 2010 - 25,898; Current (Estimate) -	44,372
Per Capita 2018 Freeze Adjusted Net Taxable Assessed Valuation (Less TIRZ Captured Value) -	\$78,631
Per Capita Gross General Obligation/Special Obligation Debt Principal -	\$2,240
Per Capita Net General Obligation/Special Obligation Debt Principal -	\$1,155

^(a) For general obligation debt for which repayment is provided from revenues of the System, the amount of self-supporting debt is based on the percentages of revenue support as shown above. To the extent the System revenues are not available, the Town is obligated to levy ad valorem taxes to pay the debt service on such obligations. See Table 8 – "Computation of Waterworks and Sewer System Self-Supporting Debt" herein.

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

^(c) Excludes the Refunded Obligations.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 3

Fiscal Year 30-Sep	Currently Outstanding Debt Service ^(a)		Less: Refunded Debt Service		The Bonds			Less: Self-Supporting Debt ^(b)	Net General Obligation Debt Service ^(c)
	Debt Service ^(a)	\$	Debt Service	\$	Principal	Interest	Total		
2019	11,050,660.00	\$	-	\$	-	-	-	4,630,567	\$ 6,420,093.00
2020	11,303,751.00		(942,091.26)		525,000.00	325,941.11	850,941.11	4,626,611	6,585,989.85
2021	9,521,673.00		(943,791.26)		625,000.00	230,800.00	855,800.00	4,464,803	4,968,878.74
2022	8,984,806.50		(951,691.26)		655,000.00	205,800.00	860,800.00	4,330,669	4,563,246.24
2023	8,839,160.50		(958,816.26)		690,000.00	179,600.00	869,600.00	4,325,144	4,424,800.24
2024	8,662,460.00		(964,491.26)		725,000.00	152,000.00	877,000.00	4,324,344	4,250,624.74
2025	8,658,880.00		(969,341.26)		760,000.00	123,000.00	883,000.00	4,306,769	4,265,769.74
2026	8,138,424.25		(977,156.26)		790,000.00	100,200.00	890,200.00	3,780,228	4,271,239.99
2027	7,773,800.25		(987,836.26)		820,000.00	76,500.00	896,500.00	3,782,368	3,900,095.99
2028	6,680,573.75		(990,773.76)		850,000.00	51,900.00	901,900.00	3,280,536	3,311,163.99
2029	6,616,772.50		(996,828.76)		880,000.00	26,400.00	906,400.00	3,206,660	3,319,683.74
2030	5,295,231.25		-		-	-	-	2,859,688	2,435,543.25
2031	4,585,531.25		-		-	-	-	2,841,663	1,743,868.25
2032	4,595,556.25		-		-	-	-	2,846,938	1,748,618.25
2033	4,596,040.63		-		-	-	-	2,844,738	1,751,302.63
2034	3,978,662.50		-		-	-	-	2,443,050	1,535,612.50
2035	2,853,875.00		-		-	-	-	1,323,113	1,530,762.00
2036	2,858,362.50		-		-	-	-	1,324,700	1,533,662.50
2037	1,689,993.75		-		-	-	-	795,025	894,968.75
2038	890,312.50		-		-	-	-	-	890,312.50
	<u>\$ 127,574,527.38</u>		<u>\$ (9,682,817.60)</u>		<u>\$ 7,320,000.00</u>	<u>\$ 1,472,141.11</u>	<u>\$ 8,792,141.11</u>	<u>\$ 62,337,614.00</u>	<u>\$ 64,346,236.89</u>

^(a) Includes self-supporting debt. Excludes the Refunded Obligations.

^(b) See Table 2 for a breakdown on the specific issues that have self-supporting debt.

^(c) Excludes self-supporting debt.

TAX ADEQUACY (Includes Self-Supporting Debt)

2018 Freeze Adjusted Net Taxable Assessed Valuation (Less TIRZ Captured Value)
 Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-20)
 Indicated required I&S Fund Tax Rate at 99% Collections to produce Maximum Debt Service requirements

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

TAX ADEQUACY (Excludes Self-Supporting Debt)

2018 Freeze Adjusted Net Taxable Assessed Valuation (Less TIRZ Captured Value)
 Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-20)
 Indicated required I&S Fund Tax Rate at 99% Collections to produce Maximum Debt Service requirements

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

TABLE 4

\$ 3,489,018,280	\$
\$ 11,212,601	\$
0.32461	\$

TABLE 5

\$ 3,489,018,280	\$
\$ 6,585,990	\$
0.19067	\$

(Audited information per the Town's Audited Annual Financial Statements for Fiscal Year Ended September 30, 2019)

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Capital Leases	\$ 17,932	\$ -	\$ (17,932)	\$ -	\$ -

For additional information regarding the Town's Long-Term Debt, see the Town's Comprehensive Annual Financial Report.

Contract Revenue Payments:

\$5,390,000 North Texas Municipal Water District ("NTMWD") Water Transmission Facilities Contract Revenue Bonds (Town of Little Elm Project), Series 2003 (the "Contract Revenue Bonds"). This issue was refinanced in February 2013.

The Contract Revenue Bonds are payable from the Town's water and sewer system (the "System") gross revenues, and to the extent System revenues are unavailable or insufficient, the Town has levied and therefor has the authority to assess and collect an ad valorem tax sufficient to make such payments. Since payments began in Fiscal Year 2004 they have been made from System revenues. Under the terms of the contract, the NTMWD owns and maintains the water facility. **The NTMWD charges to the Town reflect the cost of water plus the repayment of the Contract Revenue Bonds, as shown below. These charges are embedded in the total operating expenses in the Town's Annual Audited Financial Statements.** For additional information, see Town's 2018 Comprehensive Annual Financial Report, Note 13.

<u>Fiscal Year Ended 9-30</u>	<u>Outstanding Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 355,000.00	\$ 37,900.00	\$ 392,900.00
2020	365,000.00	30,800.00	395,800.00
2021	380,000.00	23,500.00	403,500.00
2022	390,000.00	15,900.00	405,900.00
2023	405,000.00	8,100.00	413,100.00
	<u>\$ 1,895,000.00</u>	<u>\$ 116,200.00</u>	<u>\$ 2,011,200.00</u>

INTEREST AND SINKING FUND MANAGEMENT INDEX**TABLE 7**

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2018	\$ 1,153,205
2018-19 Interest and Sinking (I&S) Fund Tax Levy of \$0.170469 at 99% Collections Produces ^(a)	<u>5,888,218</u>
Total Available for Debt Service	<u>\$ 7,041,423</u>
Less: Net General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-19	<u>6,420,093</u> ^(b)
Estimated Interest & Sinking Fund Balance at Fiscal Year Ending 9-30-19	<u>\$ 621,330</u> ^(c)

^(a) Does not include delinquent tax collections, Freeze Value Taxes, penalties and interest on delinquent tax collections or investments.

^(b) Excludes self-supporting general obligation debt being paid from surplus revenues of the Waterworks and Sewer System.

^(c) The City anticipates a drawdown from an overfunded Interest and Sinking Fund Balance.

COMPUTATION OF WATERWORKS AND SEWER SYSTEM SELF-SUPPORTING DEBT**TABLE 8**

Net System Revenues Available, Fiscal Year End September 30, 2018	\$ 8,556,618
Less: 2019 Annual Debt Service Requirements on Outstanding Revenue Bonds	-
Balance Available for Other Purposes	<u>\$ 8,556,618</u>
Estimated System General Obligation Debt for Fiscal Year Ended September 30, 2019	\$ 4,027,587
Percentage of System General Obligation Debt Self-Supporting	100%

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**TABLE 9**

Fiscal Year Ending 9/30	Principal Repayment Schedule			Bonds Unpaid at End of Year	Percent of Principal Retired (%)
	Outstanding Principal ^(a)	The Bonds	Total		
2019	\$ 7,635,000	\$ -	\$ 7,635,000	\$ 91,755,000	7.68%
2020	7,545,000	525,000	8,070,000	83,685,000	15.80%
2021	6,000,000	625,000	6,625,000	77,060,000	22.47%
2022	5,670,000	655,000	6,325,000	70,735,000	28.83%
2023	5,720,000	690,000	6,410,000	64,325,000	35.28%
2024	5,740,000	725,000	6,465,000	57,860,000	41.78%
2025	5,910,000	760,000	6,670,000	51,190,000	48.50%
2026	5,580,000	790,000	6,370,000	44,820,000	54.90%
2027	5,395,000	820,000	6,215,000	38,605,000	61.16%
2028	4,480,000	850,000	5,330,000	33,275,000	66.52%
2029	4,580,000	880,000	5,460,000	27,815,000	72.01%
2030	4,415,000	-	4,415,000	23,400,000	76.46%
2031	3,855,000	-	3,855,000	19,545,000	80.34%
2032	3,985,000	-	3,985,000	15,560,000	84.34%
2033	4,110,000	-	4,110,000	11,450,000	88.48%
2034	3,625,000	-	3,625,000	7,825,000	92.13%
2035	2,620,000	-	2,620,000	5,205,000	94.76%
2036	2,710,000	-	2,710,000	2,495,000	97.49%
2037	1,620,000	-	1,620,000	875,000	99.12%
2038	875,000	-	875,000	-	100.00%
	<u>\$ 92,070,000</u>	<u>\$ 7,320,000</u>	<u>\$ 99,390,000</u>		

^(a) Includes self-supporting debt principal and excludes the Refunded Obligations.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 10

Category	2018	% of Total	2017	% of Total	2016	Total	2015	% of Total	2014	% of Total
Real, Residential, Single-Family	\$ 2,905,061,872	68.87%	\$ 2,569,833,909	68.90%	\$ 2,208,567,640	\$ 1,908,051,992	\$ 1,654,004,413	70.49%	\$ 1,654,004,413	72.69%
Real, Residential, Multi-Family	349,707,686	8.29%	265,382,007	7.12%	158,090,379	124,376,732	66,991,644	4.59%	66,991,644	2.94%
Real, Vacant Lots/Tracts	117,553,978	2.79%	86,570,495	2.32%	84,399,365	47,499,226	39,918,875	1.75%	39,918,875	1.75%
Real, Acreage (Land Only)	74,546,469	1.77%	83,189,786	2.23%	79,236,806	78,308,668	75,950,003	2.89%	75,950,003	3.34%
Farm & Ranch Improvements	29,844,730	0.71%	63,551,721	1.70%	33,752,329	40,862,910	32,280,044	1.51%	32,280,044	1.42%
Real, Commercial / Industrial	369,574,754	8.76%	331,713,201	8.89%	270,261,577	261,035,415	221,301,443	9.64%	221,301,443	9.73%
Real & Tangible, Personal Utilities	28,075,402	0.67%	24,300,794	0.65%	22,475,593	22,664,721	17,350,093	0.84%	17,350,093	0.76%
Personal, Commercial / Industrial	70,180,699	1.66%	70,883,863	1.90%	64,769,282	50,303,155	54,660,929	1.86%	54,660,929	2.40%
Tangible Personal, Mobile Homes	8,045,449	0.19%	7,904,368	0.21%	8,088,935	8,691,773	5,962,098	0.32%	5,962,098	0.26%
Residential Inventory	68,975,459	1.64%	40,858,113	1.10%	40,274,749	18,042,945	11,832,202	0.67%	11,832,202	0.52%
Special Inventory	1,285,405	0.03%	1,623,613	0.04%	1,285,386	81,251	84,208	0.00%	84,208	0.00%
Totally Exempt Property	195,352,747	4.63%	183,731,158	4.93%	172,106,371	146,901,052	95,050,090	5.43%	95,050,090	4.18%
Total Appraised Value	\$ 4,218,204,650	100.00%	\$ 3,729,543,028	100.00%	\$ 3,143,308,412	\$ 2,706,819,840	\$ 2,275,386,042	100.00%	\$ 2,275,386,042	100.00%
Less Exemptions:										
Over-65 or Disabled Homestead	\$ 9,777,878		\$ 9,069,126		\$ 8,873,099	\$ 8,544,542	\$ 7,461,517		\$ 7,461,517	
Disabled and Deceased Veterans	20,769,813		13,952,413		11,610,530	9,808,793	6,546,519		6,546,519	
Homestead Cap Adjustment	48,639,334		58,825,518		57,190,137	30,214,439	21,069,646		21,069,646	
Productivity Value Loss	74,430,571		83,019,565		79,000,085	78,092,207	75,672,137		75,672,137	
Prorated Exempt Property	1,019,658		1,210		111,501	86,629	2,116,250		2,116,250	
House Bill 366 Exempt Property	8,683		6,511		6,171	6,126	7,806		7,806	
Freeport	-		69,053		-	-	-		-	
Community Housing Dev. Corp.	5,186,172		4,386,500		3,970,500	3,527,264	3,250,000		3,250,000	
Abatements	3,283,457		3,743,506		3,733,494	12,003,202	9,524,537		9,524,537	
Pollution Control / Other	153,263		166,239		111,343	115,810	-		-	
Totally Exempt Property	189,079,359		179,291,196		167,969,843	143,260,633	89,676,154		89,676,154	
Total Exemptions	352,348,188		352,530,837		332,576,703	285,659,645	215,324,566		215,324,566	
Net Taxable Assessed Valuation	\$ 3,865,856,462		\$ 3,377,012,191		\$ 2,810,731,709	\$ 2,421,160,195	\$ 2,060,061,476		\$ 2,060,061,476	
Less:										
Freeze Taxable Value	\$ 209,253,959		\$ 181,751,600		\$ 163,032,979	\$ 132,721,689	\$ 107,670,675		\$ 107,670,675	
Transfer Adjustment	97,673		-		47,006	144,021	2,907		2,907	
Captured Value by TIRZ # 3, # 5 and #6	167,486,550		113,992,212		58,318,268	39,548,952	34,307,737		34,307,737	
Freeze Adjusted Net Taxable Assessed Valuation	\$ 3,489,018,280		\$ 3,081,268,379		\$ 2,589,333,456	\$ 2,248,745,533	\$ 1,918,080,157		\$ 1,918,080,157	

Source: Denton Central Appraisal District

Note: Assessed Valuations shown here are Certified Valuations and may change during the year due to various supplements and protests. Valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

Fiscal Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2008-09	\$ 1,506,785,354	\$ 122,751,450	8.87%
2009-10	1,495,567,166	(11,218,188)	(0.74%)
2010-11	1,470,524,017	(25,043,149)	(1.67%)
2011-12	1,571,713,483	101,189,466	6.88%
2012-13	1,615,536,605	43,823,122	2.79%
2013-14	1,780,379,223	164,842,618	10.20%
2014-15	2,060,061,476	279,682,253	15.71%
2015-16	2,421,160,195	361,098,719	17.53%
2016-17	2,810,731,709	389,571,514	16.09%
2017-18	3,081,268,379	270,536,670	9.63%
2018-19	3,489,018,280	407,749,901	13.23%

Sources: The Municipal Advisory Council of Texas Website and the Issuer's 2018 Comprehensive Annual Financial Report and Denton Central Appraisal District
 Note: Values are before Freeze Value Loss or deduction of TIRZ Captured Value. Assessed Valuations may change during the year due to various supplements and protests.

PRINCIPAL TAXPAYERS 2018-2019

TABLE 12

Name	Type of Business	2018 Net Taxable Assessed Valuation	% of Total 2018 Taxable Assessed Valuation
Western Rim Investors 2014-4 LP	Financial/Banking	\$ 92,643,306	2.66%
Bell Fund VI Frisco LLC	Real Estate Development	49,073,000	1.41%
WRIA 15-1 LLC	Commercial Real Estate Development	47,211,505	1.35%
G&L Park View LLC	Real Estate Development	41,295,760	1.18%
Orion Lakeside LLC	Real Estate Development	36,446,173	1.04%
Towers Property Holdings LLC	Real Estate Development	30,039,874	0.86%
LETC Dunhill LLC	Commercial Real Estate Development	26,399,271	0.76%
Palladium USA	Real Estate Development	23,332,890	0.67%
Retractable Technologies Inc.	Industrial Production of Medical Supplies	17,592,776	0.50%
Cubesmart LP	Storage Units	17,151,143	0.49%
		\$ 381,185,698	10.93% *

* Based on a 2018 Freeze Adjusted Net Taxable Assessed Valuation (Less TIRZ Captured Value) of \$ 3,489,018,280

Source: Denton Central Appraisal District.

PROPERTY TAX RATES AND COLLECTIONS ^(a)

TABLE 13

Tax Year	Net Taxable Assessed Valuation ^(b)	Tax Rate	Adjusted Tax Lev ^y	% Collections ^(c)		Fiscal Year Ended
				Current	Total	
2008	\$ 1,506,785,354	0.569960	8,604,592	98.86%	99.95%	9/30/2009
2009	1,495,567,166	0.634490	9,517,069	97.75%	99.93%	9/30/2010
2010	1,470,524,017	0.665229	10,024,864	98.34%	99.99%	9/30/2011
2011	1,571,713,483	0.664960	10,462,821	98.25%	100.00%	9/30/2012
2012	1,615,536,605	0.664980	10,651,248	98.71%	100.00%	9/30/2013
2013	1,780,379,223	0.664971	11,780,687	98.88%	99.88%	9/30/2014
2014	2,060,061,476	0.664970	13,629,127	99.65%	99.91%	9/30/2015
2015	2,421,160,195	0.661687	15,848,795	99.77%	99.92%	9/30/2016
2016	2,810,731,709	0.661687	18,694,955	99.58%	99.92%	9/30/2017
2017	3,081,268,379	0.657671	21,819,292	99.80%	99.80%	9/30/2018
2018	3,489,018,280	0.649900	25,033,248	97.81% ^(d)	97.96% ^(d)	9/30/2019

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

^(b) Taxable values in this table DO NOT reflect value loss due to protest / review, freeze loss or TIRZ captured values.

^(c) Includes interest and penalties.

^(d) Current Collections are as of February 28, 2019.

Source: The Denton Central Appraisal District, The Town's 2018 Comprehensive Annual Financial Report and other information from the Issuer.

TAX RATE DISTRIBUTION

TABLE 14

	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
Maintenance & Operations	\$0.479431	\$0.485188	\$0.495731	\$0.477600	\$0.477150
I & S Fund	0.170469	0.172483	0.165956	0.184087	0.187820
TOTAL	\$0.649900	\$0.657671	\$0.661687	\$0.661687	\$0.664970

Source: The Denton Central Appraisal District.

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code (the "Municipal Sales and Use Tax Act") which provides for the maximum levy of a one percent sales tax which may be used for any lawful purpose except that the sales tax revenue may not be pledged to the payment of debt. The voters of the Town approved a 1/2% sales tax for the benefit of economic development on January 16, 1993, with collections beginning June 1993. The voters of the Town approved a 1/4% sales tax for street maintenance on May 7, 2005, with collections beginning October 1, 2005. On May 9, 2009 the Town held a successful election for the purpose of continuing the 1/4% sales tax for street maintenance. The voters of the Town approved a 1/4% sales tax for 4B community development purposes on May 12, 2007, with collections beginning October 1, 2007. The sales taxes for economic development and community development are collected solely for the benefit of the Little Elm Economic Development Corporation ("4A EDC") and the Little Elm Community Development Corporation ("4B CDC"), respectively, and may be pledged to secure payment of sales tax obligations issued or incurred by the Corporations and are not pledged to the payment of the Bonds.

Net collections on a **fiscal year** basis are shown below:

Fiscal Ended Sept 30	Total 2% Collected	1.25%^(a) Town	Ad Valorem Tax Levy	Ad Valorem Tax Rate	0.50% 4A EDC	0.25% 4B CDC
2008	\$ 2,688,878	\$ 1,680,549	22.41%	0.12006	\$ 672,220	\$ 336,110
2009	2,898,131	1,811,332	21.05%	0.11998	724,533	362,266
2010	3,143,026	1,964,391	20.86%	0.13238	785,756	392,878
2011	3,416,151	2,135,094	21.54%	0.14327	854,038	427,019
2012	3,861,035	2,413,147	23.30%	0.15490	965,259	482,629
2013	4,479,710	2,799,819	26.53%	0.17640	1,119,928	559,964
2014	4,810,546	3,006,591	25.58%	0.17007	1,202,637	601,318
2015	5,705,401	3,565,876	26.18%	0.17412	1,426,350	713,175
2016	6,962,498	4,351,562	27.66%	0.18303	1,740,625	870,312
2017	7,242,129	4,526,331	24.21%	0.16020	1,810,532	905,266
2018	7,999,076	4,999,423	22.91%	0.15069	1,999,769	999,885

^(a) The Town's portion of the sales tax collections increased from 1% to 1¼% beginning October 1, 2005 as the result of the May 2005 authorization for an additional ¼% for street maintenance.

Source: Texas Comptroller of Public Affairs Website (<http://www.window.state.tx.us/taxinfo/sales>)

Note: The Comptroller's website figures list sales tax revenues in the month they are delivered to the Town, which is two months after they are generated/collected.

FUND BALANCES

TABLE 16

	Audited As of 9/30/2018
General Operating Fund (Unrestricted / Undesignated)	\$ 21,212,812
General Obligation Interest and Sinking Fund (Debt Service Fund)	1,153,205
Capital Projects Fund (Major governmental Funds)	19,676,375
Waterworks and Sewer System Operating fund (Excl (Excluding Impact Fees)	10,944,249
Water and Sewer Impact Fees Fund	2,766,515
Solid Waste Fund	590,090
Special Revenue Funds	3,277,351
Internal Replacement Funds	6,096,694
Street Impact Fees Fund	751,574
Component Units Funds (EDC / CDC)	1,685,840
Total	\$ 68,154,705

Source: The Issuer

OVERLAPPING DEBT DATA AND INFORMATION

TABLE 17

(As of February 28, 2019)

<u>Taxing Body</u>	<u>Gross Debt Principal</u>	<u>% Overlapping</u>	<u>Amount Overlapping</u>
Denton County	\$ 612,630,000	3.70%	\$ 22,667,310
Frisco Independent School District	1,883,638,851	3.06%	57,639,349
Highway 380 MMD #1	23,725,000	100.00%	23,725,000
Little Elm Independent School District	<u>304,233,031</u>	44.76%	<u>136,174,705</u>
Total Gross Overlapping Debt	2,824,226,882		\$ 240,206,364
Town of Little Elm	99,390,000 ^(a)	100.00%	<u>99,390,000</u> ^(a)
Total Gross Direct and Overlapping Debt Principal			<u>\$ 339,596,364</u> ^(a)
Ratio of Gross Direct and Overlapping Debt to 2018 Freeze Adjusted Net Taxable Assessed Valuation (Less TIRZ Captured Value)			9.73% ^(a)
Ratio of Gross Direct and Overlapping Debt to 2018 Actual Value			8.05% ^(a)
Per Capita Gross Direct and Overlapping Debt			\$7,653 ^(a)

Note: The above figures show Gross General Obligation Debt for the Town of Little Elm, Texas

The Issuer's Net General Obligation Debt Principal is

\$ 51,236,328 ^(b)

Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt Principal	<u>\$ 291,442,692</u> ^(b)
Ratio of Net Direct and Overlapping Debt Principal to 2018 Freeze Adjusted Net Taxable Assessed Valuation (Less TIRZ Captured Value)	8.35% ^(b)
Ratio of Net Direct and Overlapping Debt Principal to 2018 Actual Value	6.91% ^(b)
Per Capita Net Direct and Overlapping Debt	\$6,568 ^(b)

^(a) Includes the Bonds and self-supporting debt. (See "TABLE 2 - GENERAL OBLIGATION BONDED DEBT" herein.)

^(b) Includes the Bonds but excludes self-supporting debt. (See "TABLE 2 - GENERAL OBLIGATION BONDED DEBT" herein.)

Source: Municipal Advisory Council of Texas.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 18

<u>Governmental Entity</u>	<u>2018 Net Taxable Assessed Valuation</u>	<u>% of Actual</u>	<u>2016 Tax Rate^(a)</u>
Denton County	\$ 98,442,492,384	100%	\$ 0.248000
Frisco Independent School District	38,136,560,642	100%	1.460000
Highway 380 Municipal Management District #1	162,412,113	100%	0.505000
Little Elm Independent School District	4,016,072,701	100%	1.540000

Source: Municipal Advisory Council of Texas.

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

TABLE 19

<u>Taxing Body</u>	<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To Date</u>	<u>Unissued</u>
Denton County	1/16/1999	Road	\$ 85,320,000	\$ 77,629,375	\$ 7,690,625
	5/15/2004	Equipment	2,000,000	-	2,000,000
	11/4/2008	Road	310,000,000	289,982,929	20,017,071
	11/4/2008	County Bldgs	<u>185,000,000</u>	<u>157,542,142</u>	<u>27,457,858</u>
			\$ 582,320,000	\$ 525,154,446	\$ 57,165,554
Frisco Independent School District	5/10/2014	Sch Bldg & Technolgy	<u>775,000,000</u>	<u>605,000,000</u>	<u>170,000,000</u>
			\$ 775,000,000	\$ 605,000,000	\$ 170,000,000
Highway 380 Municipal Management District #1	5/9/2015	Road	\$ 99,000,000	\$ 13,765,000	\$ 85,235,000
	5/9/2015	Water, Sewer, Drainage	62,000,000	9,960,000	52,040,000
	5/7/2016	Road	19,450,000	-	19,450,000
	5/7/2016	Utility	<u>7,825,000</u>	-	<u>7,825,000</u>
			\$ 188,275,000	\$ 23,725,000	\$ 164,550,000
Little Elm Independent School District	11/7/2017	Sch Bldg/Athletic Imp	\$ 235,000,000	\$ 175,000,000	\$ 60,000,000
	11/7/2017	Refunding	<u>4,500,000</u>	-	<u>4,500,000</u>
		\$ 239,500,000	\$ 175,000,000	\$ 64,500,000	

Source: Municipal Advisory Council of Texas.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF THE ISSUER

TABLE 20

-None-

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

TABLE 21

	Fiscal Year Ending September 30				
	2018	2017	2016	2015	2014
Revenues					
Property taxes, penalty, and interest	\$ 21,845,134	\$ 19,346,127	\$ 16,835,452	\$ 14,863,621	\$ 12,998,369
Licenses and Permits	4,105,031	4,501,472	4,827,059	4,009,517	3,814,451
Intergovernmental and Grant Revenues	518,461	806,708	408,265	384,535	153,394
Charges for Services	3,797,275	3,169,497	2,583,980	2,270,800	1,421,402
Fines	765,229	653,524	594,256	583,422	346,424
Interest	327,787	139,061	81,041	55,316	64,834
Contributions and Donations	-	-	-	43,310	600,000
Other Revenues	375,998	355,872	508,757	567,668	1,106,988
Total Revenues	\$ 31,734,915	\$ 28,972,261	\$ 25,838,810	\$ 22,778,189	\$ 20,505,862
Expenditures					
Current:					
General Government	\$ 4,052,008	\$ 3,941,541	\$ 3,896,083	\$ 5,479,481	\$ 3,396,927
Community Services	2,519,977	2,275,030	2,638,775	2,129,107	1,898,075
Public Safety	15,773,178	12,851,040	10,763,308	10,453,632	9,102,265
Public Works	3,232,957	2,546,491	2,356,842	2,217,731	1,907,721
Culture and Recreation	3,952,086	3,553,251	3,161,376	2,920,802	2,520,932
Capital Outlay	78,143	1,316,232	605,829	1,730,722	689,582
Debt Service	-	-	-	-	-
Total Expenditures	\$ 29,608,349	\$ 26,483,585	\$ 23,422,213	\$ 24,931,475	\$ 19,515,502
Excess (Deficit) of Revenues Over Expenditures	\$ 2,126,566	\$ 2,488,676	\$ 2,416,597	\$ (2,153,286)	\$ 990,360
Other Financing Sources (Uses):					
Proceeds from Capital Leases/Sale of Assets	\$ 103,668	\$ 31,663	\$ 252,717	\$ 128,457	\$ 163,084
Insurance proceeds	321,485	1,016,343	-	-	-
Operating Transfers In	2,786,598	2,109,670	1,898,332	2,206,459	1,431,084
Operating Transfers Out	(100,000)	(1,000,000)	(205,464)	(1,667,505)	(1,083,477)
Total Other Financing Sources (Uses)	\$ 3,111,751	\$ 2,157,676	\$ 1,945,585	\$ 667,411	\$ 510,691
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	\$ 5,238,317	\$ 4,646,352	\$ 4,362,182	\$ (1,485,875)	\$ 1,501,051
Fund Balance - October 1 (Beginning)	\$ 15,974,495	\$ 11,328,143	\$ 6,965,961	\$ 8,451,836	\$ 6,950,785
Restatement	-	-	-	-	-
Prior Period Adjustment	-	-	-	-	-
Reclassification of Funds	-	-	-	-	-
Fund Balance - September 30 (Ending)	\$ 21,212,812	\$ 15,974,495	\$ 11,328,143	\$ 6,965,961	\$ 8,451,836
Fund Balance:					
Non-spendable (Prepays and Inventory)	\$ 64,554	\$ 313,699	\$ 299,425	\$ 265,038	\$ 200,487
Spendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	4,938,437
Unassigned	21,148,258	15,660,796	11,028,718	6,700,923	3,312,912
	\$ 21,212,812	\$ 15,974,495	\$ 11,328,143	\$ 6,965,961	\$ 8,451,836

Source: The Issuer's Audited Financial Statements and Town officials.

	Fiscal Year Ended 9-30				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues ^(a)	\$ 18,300,349	\$ 15,570,997	\$ 14,228,299	\$ 13,023,491	\$ 11,206,850
Expenses ^(b)	<u>(9,743,731)</u>	<u>(9,154,302)</u>	<u>(8,068,474)</u>	<u>(6,469,613)</u>	<u>(6,275,068)</u>
Net Revenue Available for Debt Service	<u>\$ 8,556,618</u>	<u>\$ 6,416,695</u>	<u>\$ 6,159,825</u>	<u>\$ 6,553,878</u>	<u>\$ 4,931,782</u>
Annual Revenue Bond Debt Service Requirements	\$0	\$0	\$0	\$0	\$ 68,205
Revenue Debt Service Coverage	N/A	N/A	N/A x	N/A x	72.31 x
Annual Debt Service Requirements for all Bonds Paid from System Revenues	\$ 4,029,817	\$ 3,540,906	\$ 2,753,238	\$ 2,759,193	\$ 2,538,995
Debt Service Coverage on All Bonds Paid from System Revenues	2.12 x	1.81 x	2.24 x	2.38 x	1.94 x
Customer Count					
Water	11,153	10,680	10,370	9,880	9,835
Sewer	10,732	10,272	9,983	9,531	9,489
Impact Fee Revenues ^(c) (not included in Revenues above)	\$ 1,351,845	\$ 912,169	\$ 980,403	\$ 980,095	\$ 1,286,723

^(a) Revenues include operating revenues and interest income.

^(b) Expenses exclude depreciation and include operating expenses. Contract payments to the NTMWD are included as part of the operating expenses. See TABLE 6 - OTHER OBLIGATIONS on page A-4 for payment amounts due on the Series 2003 NTMWD Contract Revenue Bonds.

^(c) Impact Fees may be used for debt service, if required.

Source: The Issuer's Comprehensive Annual Financial Reports and other information from the Issuer.

Note: For a description of the System, see "THE SYSTEM" in the Official Statement.

WATER RATES**TABLE 23***(Based on Monthly Billing)*

**Existing Rates
Effective
October 1, 2018**

Minimum Charge for up to 2,000 Gallons, Based on Meter Size

5/8 inch Meter	\$	23.61	
1 inch Meter		38.58	
1½ inch Meter		70.67	
2 inch Meter		118.02	
3 inch Meter		236.11	
4 inch Meter		771.93	
6 inch Meter		1,545.90	
8 inch Meter		1,798.69	Commercial/Schools/Multi-Family

Rate per 1,000 Gallons for Amounts Over 2,000 Gallons and:

2,000 to 10,000 gallons	\$	6.27	/ 1,000 gallons
10,001 to 20,000 gallons		6.57	/ 1,000 gallons
20,001 & above gallons		6.87	/ 1,000 gallons
2,001 gallons & greater (all meter sizes)	\$	6.66	Commercial/Schools/Multi-Family

PRINCIPAL WATER CUSTOMERS**TABLE 24***(As of September 30, 2018)*

<u>Name of Customer</u>	<u>Customer Consumption (Gals.)</u>	<u>Total Annual Revenue</u>	<u>Average Monthly Bill</u>
Little Elm ISD	33,827,000	266,123	\$ 22,177
Orion Lakeside LLC	29,122,000	263,615	21,968
Overlook by the Park	29,041,000	260,962	21,747
Yes Companies Utility BPCC	28,237,000	223,403	18,617
Bell Fund VI Frisco, LLC	22,591,000	217,794	18,149
GCRE/TX Main MFLLC dba Parkview Apts	13,964,000	145,704	12,142
Lakeside Manor Senior Community	5,553,000	73,513	6,126
Eldorado Village LLC	5,084,000	40,842	3,404
Eldorado West HOA	5,027,000	39,555	3,296
Fast Lane Car Wash	5,025,000	34,839	2,903
Sub-Total Top Ten ^(b)	<u>177,471,000</u>	<u>\$ 1,566,350</u>	<u>\$ 130,529</u>
Remaining (All Customers)	<u>1,109,098,000</u>	<u>\$ 8,472,584</u>	<u>\$ 63</u>
Total Consumption / Revenue	1,286,569,000	\$ 10,038,934	\$ 130,592
Top Ten Percent of Total System	13.79%	15.60%	
Remaining Customers Percent of Total	86.21%	84.40%	

^(a) *Mobile home park*^(b) *Excludes Governments*

SEWER RATES**TABLE 25***(Based on Monthly Billing)*

**Existing Rates
Effective
October 1, 2018**

<u>Minimum Charge Per Month</u>	
Residential (single family, one unit) Base Rate	
First 2,000 Gallons	\$ 30.13
2,001 & Above (per 1,000) (Winter Average)	\$ 4.62
Commercial - first 2,000 Gallons	\$ 30.13
2,001 & Above (per 1,000) (Actual Average)	\$ 4.62

PRINCIPAL SEWER CUSTOMERS**TABLE 26***(As of September 30, 2018)*

<u>Name of Customer</u>	<u>Customer Consumption (Gals.)</u>	<u>Total Annual Revenue</u>	<u>Average Monthly Bill</u>
Yes Companies Utility BPCC	28,272,000	\$ 126,010	\$ 10,501
Overlook by the Park	21,902,000	97,763	8,147
Bell Fund VI Frisco, LLC	19,926,000	89,007	7,417
Orion Lakeside LLC	19,409,000	86,685	7,224
GCRE/TX Main MFLLC dba Parkview Apts	8,662,000	38,977	3,248
Little Elm ISD	8,360,000	39,381	3,282
Lakeside Manor Senior Community	4,885,000	22,172	1,848
Fast Lane Car Wash	4,199,000	18,885	1,574
Eldorado Village LLC	3,649,000	17,166	1,430
Palladium Little Elm, LLC	2,536,000	11,742	979
Sub-Total Top Ten ^(b)	121,800,000	\$ 547,786	\$ 45,649
Remaining (All Customers)	723,672,000	\$ 5,787,859	\$ 45
Total Consumption / Revenue	845,472,000	\$ 6,335,645	\$ 45,694
Top Ten Percent of Total System	14.41%	8.65%	
Remaining Customers Percent of Total	85.59%	91.35%	

^(a) Mobile home park.^(b) Excludes Governments

NOTE: The Town is on an averaging system for residential customers - with sewer based on water consumption.

NOTE: The Town provides sanitary sewer treatment and disposal for Denton County Fresh Water Supply District No. 8-B and 8-C (the "District") pursuant to an agreement, effective February 13, 2002, between the Town and the District, wherein the town agreed to provide wastewater collection, treatment and disposal services to the District. Services are billed quarterly at a rate equal to 1.25 times the Town's historic treatment cost, which currently is a rate of \$5.40 per 1,000 gallons ($\$4.32 \times 1.25 = \5.40). The Town billed 32.6 million gallons of effluent in calendar year 2013 for an annual revenue of \$176,000.

NOTE: The Town provides water to Frisco Ranch and Hills and bills a minimum on the metered water at \$1,200 per month; the minimum bill is for the first 500,000 gallons; after the first 500,000 gallons, the Town charges \$2.40 per 1,000 gallons. During the fiscal year 2013-2014 (start-up January 2013) the Town billed 8.6 million gallons for a total revenue to the Town's Utility system of \$21,500.

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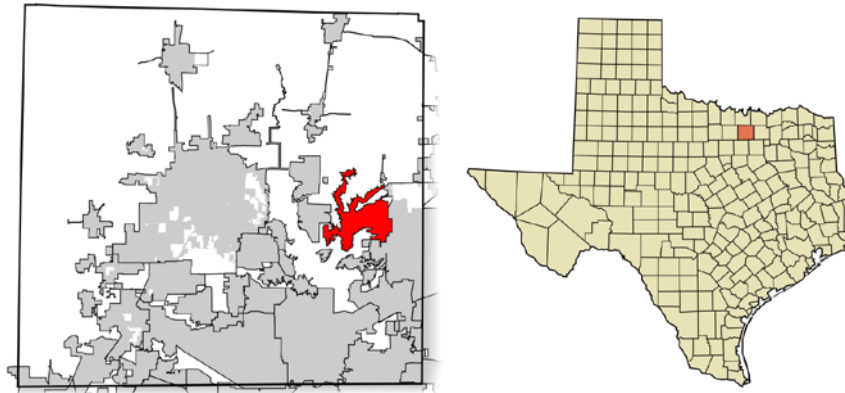
APPENDIX B

GENERAL INFORMATION REGARDING THE TOWN OF LITTLE ELM AND DENTON COUNTY, TEXAS

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GENERAL INFORMATION REGARDING THE TOWN OF LITTLE ELM AND DENTON COUNTY, TEXAS

Location of Little Elm in Denton County, Texas



General:

The Town of Little Elm (the "Town") is a residential community located approximately 10 miles east of the City of Denton and 33 miles north of downtown Dallas, on the northeast shore of Lewisville Lake (the "Lake") and is the sixth largest municipality in Denton County. The Town was incorporated on June 7, 1966 and adopted its Home Rule Charter in May, 2001. The Town is governed by the Town Council, which consists of the Mayor and six Council Members, who serve for three-year staggered terms. The Mayor and Council Members in place on and six are elected at large, while the remainder represent specific district.

At the time of incorporation in 1966, the population of the Town was 363 and the original Town encompassed 1,222 acres. Today the Town has approximately 22.21 square miles (16.01 square miles of land and 6.2 square miles of lake) within its corporate limits.

The Town's 2010 Census was 25,898, which is a 610.3% growth since 2000. The current estimated population is 44,372. Beyond the town limits, Little Elm supports an additional 20,000 area residents, putting Little Elm's five-mile service radius at more than 50,000 people served. Much of the growth is attributed to development in areas annexed by the Town.

Located on two peninsulas of the Lake, a 23,280 acre reservoir operated by the U.S. Army corps of Engineers, the town has more miles of shoreline than any other community adjacent to the Lake. The Town's geographic positioning provides shoreline that can be used for numerous recreational opportunities. The Town provides a full range of municipal services, including police and fire protection, municipal courts, street maintenance, engineering, traffic and transportation, water distribution, sewage treatment, sanitation and health inspection, outdoor recreation and library services.

Easy access to the North Dallas Tollway, as well as FM720 (a major road through the Town) provides connections to neighboring cities and job centers (Denton, Frisco, The Colony, Carrollton, Lewisville and Plano). This accessibility to major thoroughfares has been one of the major driving forces in the overall growth and development of the area.

In August 2009, the Lewisville Lake Toll Bridge opened to traffic. The bridge and approaching roadways have provided an east-west connection between Interstate 35E, the North Dallas Tollway, and even further east to State Highway 75. Little Elm has two main arteries that run through the middle of town - FM 720 (Eldorado Parkway) going east towards Frisco and North/Northwest to US Highway 380, and FM 423 going north to US 380 and south to SH 121 in the Colony. Population growth, along with transportation corridor improvements, continues to stimulate both residential and commercial development in Little Elm.

Denton County (the "County") is located in north central Texas and was created in 1846 from Fannin County. The 2010 Census was 662,614, which is a 53.0% increase since 2000. The current population estimate for the County is 758,370. The economy is diversified by manufacturing, state supported institutions, and agriculture. The Texas Almanac designates cattle, horses, poultry, hay and wheat as the principal source of agricultural income. Minerals produced in the county include natural gas and clay. Institutions of higher education include University of North Texas and Texas Woman's University. Lake Lewisville attracts over 3,000,000 visitors annually. Alliance Airport, located in the County has continued to expand. Texas Motor Speedway, a major NASCAR race track was opened in 1997, which has had a positive impact on employment and recreations spending for the area.

Source: *Latest Texas Municipal Report published by the Municipal Advisory Council of Texas and other information from the Town.*

Population Trends:

<u>Census Report</u>	<u>Town of Little Elm</u>	<u>Denton County</u>
Current Estimate	44,372	836,210
2010	25,898	662,614
2000	3,646	432,976
1990	1,308	273,525
1980	926	143,126

Sources: U.S. Census Bureau and the Issuer.

Leading Employers in the Town of Little Elm:

<u>Employer</u>	<u>Product or Type of Business</u>	<u>Number of Employees</u>
Little Elm Independent School District	Education	868
Town of Little Elm	Municipal government	292
Kroger	Retail Grocery	250
Lowes Home Center	Retail Sales	185
Retractable Technologies	Medical Production	140
Hula Hut	Restaurant	88
Applebee's	Restaurant	70
Holt	Heavy Duty Equipment	50
24 Hour Fitness	Gym and Fitness Center	36
Hobby Lobby	Retail Sales	32

Source: The Issuer's 2018 CAFR

Residential and Commercial Building Construction:

<u>Fiscal Year</u>	<u>Residential (a)</u>		<u>Commercial (b)</u>		<u>Total (Includes Multi-Family)</u>	
	<u>Number of Permits</u>	<u>AV Property Value</u>	<u>Number of Permits</u>	<u>AV Property Value</u>	<u>Number of Permits</u>	<u>AV Property Value</u>
<u>Ended 9-30</u>		<u>\$\$ Amount</u>		<u>\$\$ Amount</u>		<u>\$\$ Amount</u>
2009	278	\$ 50,599,998	18	\$ 4,758,480	296	\$ 55,358,478
2010	404	98,828,146	13	1,355,986	417	100,164,132
2011	352	79,754,929	20	21,680,781	372	101,435,710
2012	352	80,000,000	6	20,000,000	358	100,000,000
2013	689	200,048,000	30	9,208,000	786	277,581,000
2014	860	288,332,614	50	97,001,443	924	430,548,057
2015	993	350,554,010	31	44,909,851	1,107	432,326,274
2016	1,154	409,297,791	59	8,144,568	1,230	433,264,829
2017	1,084	386,023,376	87	26,236,536	1,195	440,041,460
2018*	1,101	370,219,049	101	34,054,309	1,202	404,273,358

<u>Fiscal Year</u>	<u>Multi-Family (c)</u>	
	<u>Number of Permits</u>	<u>AV Property Value</u>
<u>Ended 9-30</u>		<u>\$\$ Amount</u>
2013	67	\$ 68,325,000
2014	14	45,214,000
2015	83	36,862,413
2016*	17	15,822,470
2017	24	27,781,548
2018*	0	0

^(a) Reporting for Single Family Residential. Residential figures include the Town's Extra Territorial Jurisdiction (ETJ).

^(b) Commercial information includes additions, remodels, new commercial building and new building finish out and shells.

^(c) Multi-family figures represent actual building within a complex.

* Current fiscal year figures are as of September 30, 2018 (unaudited)

* AV values are from the Certified Values Reports provided by Denton County Appraisal District.

Sources: The Issuer.

Labor Force Statistics:

	<u>Little Elm</u>		<u>Denton County</u>		<u>State of Texas</u>	
	<u>December</u> <u>2018</u>	<u>December</u> <u>2017</u>	<u>December</u> <u>2018</u>	<u>December</u> <u>2017</u>	<u>December</u> <u>2018</u>	<u>December</u> <u>2017</u>
Civilian Labor Force	23,350	22,600	486,151	468,634	13,976,348	13,598,061
Total Employed	22,613	21,818	471,903	455,305	13,471,690	13,096,216
Total Unemployed	737	782	14,248	13,329	504,658	501,845
% Unemployed	3.2%	3.5%	2.9%	2.8%	3.6%	3.7%
% Unemployed (United States)	3.7%	3.9%	3.7%	3.9%	3.7%	3.9%

Source: Texas Workforce Commission, Labor Market Information Department.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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[Closing Date]

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the “Town of Little Elm, Texas, General Obligation Refunding Bonds, Series 2019,” dated April 15, 2019, in the principal amount of \$7,320,000 (the “Bonds”), we have examined into their issuance by the Town of Little Elm, Texas (the “Town”), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the Town’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the Town, the disclosure of any financial or statistical information or data pertaining to the Town and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on February 1 in each of the years specified in an ordinance adopted by the Town Council of the Town authorizing the issuance of the Bonds (the “Ordinance”), without right of prior redemption. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Ordinance, an Escrow Agreement (the “Escrow Agreement”) between the Town and BOKF, NA (the “Escrow Agent”), a special report (the “Verification Report”) of Ritz & Associates LP (the “Accountants”) and an examination of the initial Bond executed and delivered by the Town (which we found to be in due form and properly executed); (ii) certifications of officers of the Town relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the Town and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the Town and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the Town payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the Town, 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 the general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a fund

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "Town of Little Elm, Texas, General Obligation Refunding Bonds, Series 2019"

with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the Verification Report of the Accountants as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the Town with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof.

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

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

APPENDIX D

**EXCERPTS FROM THE TOWN OF LITTLE ELM AUDITED FINANCIAL STATEMENTS FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

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

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Financial Section



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Austin | Conroe | Dallas | Fort Worth | Houston
Los Angeles | Midland | New York City | San Antonio

Independent Auditor's Report

To the Honorable Mayor,
Town Council, and Town Manager
Town of Little Elm, 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 Town of Little Elm (the Town), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The Honorable Mayor,
Town of Little Elm, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town, as of September 30, 2018, 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.

Change in Accounting Principles

As discussed in Note 17 to the financial statements, in 2018, the Town adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Beginning net position has been restated to reflect the change in accounting principle for implementation of this Statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 5-15), budgetary comparison information (Pages 70-72), and TMRS pension and OPEB schedules (pages 73-77) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The Honorable Mayor,
Town of Little Elm, Texas

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 February 13, 2019, on our consideration of the Town'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 Town's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 13, 2019



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MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018

(unaudited)

As management of the Town of Little Elm, we offer the reader of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Little Elm for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report and the financial reports that follow in this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$210,645,238 (net position). Of this amount \$31,589,281 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$39,156,319 during the fiscal year, exclusive of the cumulative effect of the implementation of GASB Statement No. 75.
- The Town's total amount of outstanding debt is \$111,304,432, which is a net increase of \$8,726,409 when compared to the prior year. The Town issued \$15,460,000 in Certificates of Obligation on August 15, 2018 for the purpose of paying the Town's contractual obligations for the constructing, improving and equipping the Town's aquatics center; constructing street improvements, including drainage, landscaping, curbs, gutters, sidewalks, signage, traffic signalization and street noise abatement incidental thereto and the acquisition of land and rights-of-way therefor; acquiring, constructing, improving and equipping municipal park and recreational facilities, including the acquisition of land therefor; and professional services rendered in connection with the construction and financing of the foregoing project. Details can be found in the notes to the financial statements.
- As of the close of the current fiscal year, the Town of Little Elm's governmental funds reported a combined ending fund balance of \$50,499,269, an increase of \$22,828,561 in comparison with the prior year. Within this total, \$28,677,341 (57%) is restricted by specific legal requirements, \$21,005,800 (42%) is unassigned fund balance, \$751,574 (1%) is committed to specific types of expenditures and \$64,554 is nonspendable.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broader overview of the Town's finances, in a manner similar to a private-sector business. Two statements, the Statement of Net Position and the Statement of Activities, are utilized to provide this financial overview.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018

(unaudited)

The Statement of Net Position presents information on all the Town's assets and liabilities, and deferred inflows/outflows of resources with the differences reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the Town is improving or deteriorating. The statement of net position combines and consolidates governmental and business-type current financial resources with capital assets and long-term obligations. In order to assess the overall health or financial condition of the Town, other non-financial factors should also be taken into consideration. These include changes in the Town's property tax base and the condition of the Town's infrastructure (i.e., streets, drainage improvements, storm and sewer lines, etc.).

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flow. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide statements distinguish between governmental activities and business-type activities. Governmental activities basically account for those activities supported by taxes and intergovernmental revenues. On the other hand, business-type activities are basically supported by user fees and charges. Most Town services are reported in governmental activities while business-type activities are reported in the Enterprise Fund. The governmental activities of the Town include general government, community services, public safety, public works, and culture and recreation. The business-type activities of the Town include water and sewer services and solid waste services.

The government-wide financial statements include not only the Town of Little Elm itself (known as the primary government), but also two discretely presented component units. The Town's sales tax corporations are the Little Elm Economic Development Corporation 4A (LEEDC) and Little Elm Community Development Corporation 4B (LECDC). Although legally separate, these component units operate under the criteria of board appointment and removal by the Town Council. Approval and oversight of capital projects as well as budget appropriations and approval is under the authorization of the Town Council.

Fund financial statements. The Town, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018

(unaudited)

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 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 Town of Little Elm maintains several individual governmental funds organized according to their type (special revenue, debt service, and capital projects). 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 fund, the debt service fund, the capital projects fund and the PID capital projects fund, all of which are considered to be major funds. All capital project funds are combined for a single, aggregated presentation. Data from the other non-major funds are also combined and reported in a single column. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The Town maintains two types of proprietary funds: enterprise funds and an internal service fund. Enterprise funds are used to report the same function as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water/sewer and solid waste operations. The internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town of Little Elm uses its internal service fund to account for vehicle and equipment replacements.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Little Elm's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town has one fiduciary fund, the PID Agency Fund.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found after the notes to the financial statements.



MANAGEMENT'S DISCUSSION & ANALYSIS
 For the year ended September 30, 2018
 (unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

At the end of fiscal year 2018, the Town's net position (assets exceeding liabilities) totaled \$210,645,238. This analysis focuses on the net position (Table 1) and charges in net position (Table 2).

Net Position. The largest portion of the Town's net position, \$163,914,687 or 78% reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town reports its capital assets net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

An additional portion of the Town's net position, \$15,141,270 or 7%, represents resources that are subject to external restrictions on how they may be used. The unrestricted portion of net position which is \$31,589,281 or 15% may be used to meet the government's ongoing obligations to citizens and creditors.

Table 1
Condensed Schedule of Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 60,436,321	\$ 35,543,325	\$ 25,495,231	\$ 29,977,377	\$ 85,931,552	\$ 65,520,702
Capital assets	165,531,793	145,514,730	77,414,060	68,029,252	242,945,853	213,543,982
Total assets	225,968,114	181,058,055	102,909,291	98,006,629	328,877,405	279,064,684
Deferred outflow s of resources	2,072,661	2,725,366	1,040,164	1,186,610	3,112,825	3,911,976
Current liabilities	5,562,160	5,014,072	3,604,653	3,641,003	9,166,813	8,655,075
Noncurrent liabilities	65,848,186	54,228,379	45,456,246	48,349,644	111,304,432	102,578,023
Total liabilities	71,410,346	59,242,451	49,060,899	51,990,647	120,471,245	111,233,098
Deferred inflow s of resources	800,446	-	73,301	-	873,747	-
Net position:						
Net investment in capital	123,244,861	103,484,651	40,669,826	38,221,407	163,914,687	141,706,058
Restricted	12,374,755	7,463,780	2,766,515	2,014,670	15,141,270	9,478,450
Unrestricted	20,210,367	13,592,539	11,378,914	6,966,515	31,589,281	20,559,054
Total net position	\$ 155,829,983	\$ 124,540,970	\$ 54,815,255	\$ 47,202,592	\$ 210,645,238	\$ 171,743,562

Changes in Net Position. The net position of the Town increased by \$39,156,319 from the prior year, exclusive of the cumulative effect of the implementation of GASB Statement No. 75.

Governmental Activities. Governmental activities increased the Town's net position by \$31,519,618 from the prior year. This was due in part to an increase in the ad valorem tax revenues, sales tax revenues and charges for services.

Business-type Activities. Net position from business-type activities increased \$7,636,701 from the prior year. Increased utility revenues from growth of our customer base are partially responsible for this increase in net position. However, increased water revenue, sewer services and interest revenue also played a role in our increase in the net position since the prior fiscal year.



MANAGEMENT'S DISCUSSION & ANALYSIS
 For the year ended September 30, 2018
 (unaudited)

Government-Wide Financial Analysis

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 11,973,120	\$ 10,495,522	\$ 20,149,486	\$ 17,711,070	\$ 32,122,606	\$ 28,206,592
Operating grants and contributions	1,909,369	2,486,348	194,520	50	2,103,889	2,486,398
Capital grants and contributions	34,764,994	8,269,408	2,224,101	1,363,346	36,989,095	9,632,754
General revenues:						
Property taxes	21,827,298	18,817,352	-	-	21,827,298	18,817,352
Sales taxes	4,881,118	4,303,543	-	-	4,881,118	4,303,543
Franchise taxes	2,339,724	2,133,889	123,504	114,365	2,463,228	2,248,254
Investment Income	628,922	291,461	307,881	151,282	936,803	442,743
Other	751,830	2,326,196	59,830	42,383	811,660	2,368,579
Gain on sale of capital assets	-	19,709	15,864	21,711	15,864	41,420
Total revenues	79,076,375	49,143,428	23,075,186	19,404,207	102,151,561	68,547,635
Expenses:						
General government	10,282,772	7,030,639	-	-	10,282,772	7,030,639
Community service	2,837,652	2,562,510	-	-	2,837,652	2,562,510
Public safety	17,650,976	14,962,540	-	-	17,650,976	14,962,540
Public works	6,274,905	4,620,071	-	-	6,274,905	4,620,071
Culture and recreation	5,597,971	3,813,775	-	-	5,597,971	3,813,775
Interest expense	4,970,121	1,705,104	-	-	4,970,121	1,705,104
Water and sewer services	-	-	13,442,962	13,091,003	13,442,962	13,091,003
Solid waste services	-	-	1,937,883	1,885,091	1,937,883	1,885,091
Total expenses:	47,614,397	34,694,639	15,380,845	14,976,094	62,995,242	49,670,733
Change in net position before transfers	31,461,978	14,448,789	7,694,341	4,428,113	39,156,319	18,876,902
Transfers	57,640	2,297,150	(57,640)	(2,297,150)	-	-
Change in net position	31,519,618	16,745,939	7,636,701	2,130,963	39,156,319	18,876,902
Net position - beginning	124,540,970	107,795,031	47,202,592	45,071,629	171,743,562	152,866,660
Cumulative effect of accounting change	(230,605)	-	(24,038)	-	(254,643)	-
Net position - ending	\$ 155,829,983	\$ 124,540,970	\$ 54,815,255	\$ 47,202,592	\$ 210,645,238	\$ 171,743,562

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

As of the end of the current fiscal year, the Town's governmental funds reported combined fund balances of \$50,499,269.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018
(unaudited)

The General Fund is the main operating fund of the Town. At the end of the current fiscal year, unassigned fund balance was \$21,148,258. The unassigned fund balance of the General Fund increased by \$5,487,462 during the current fiscal year. This increase was primarily due to an increase in revenues, particularly revenue from ad valorem property taxes.

The Debt Service Fund had an increase of \$406,992 in fund balance. This was due to the increase in ad valorem property tax revenue. These funds are specifically restricted for the payment of debt service. The Capital Projects Fund increased by \$12,391,659 due to the issuance of debt for \$15,460,000 this fiscal year. PID Capital Projects Fund increased by \$3,337,261 due to contributions due to the growth in existing PIDs as well as the addition of two new PID's, Hillstone Pointe and Lakeside Estates. Other governmental funds' combined fund balances increased by \$1,454,332.

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

Unrestricted net position of the Enterprise Funds at the end of the year was \$11,378,914. This represents an increase of \$4,412,399. The increase is attributable to gains in water and sewer sales revenue as well as capital contributions. This year's operating revenue was \$20,395,427. The increase of \$2,641,974 from last year's operating revenue is attributable to increases in water and sewer sales revenue, the result of increases in rates and consumption.

General Fund Budgetary Highlights. In FY 2018, the General Fund expenditure budget was increased by \$4,383,660 over the 2017 budget. Amendments made during the fiscal year 2018 increased the original revenue budget by \$192,000 and increased the expenditure budget by \$3,118,846. Amendments were for insurance proceeds, grant awards, and unanticipated expenditures during the year. During the fiscal year the Town analyzes their quarterly financial statements and determines if a budget amendment is reasonable and necessary. All budget amendments receive scrutiny and Town Council approval through an ordinance.

In the General Fund, the actual revenue received in comparison to the final budget was over budget by \$3,605,655. This positive variance is most noticeable in licenses and permits and charges for service revenue. General Fund expenditures had a final budget to actual variance of \$4,178,414 prior to other financing sources/uses. This positive variance is the result of savings experienced in nearly all departments. Also some budgeted projects were not completed in FY2018 and were encumbered to the FY2019 budget.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$242,945,853 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, park facilities, vehicles, machinery and equipment, roads, bridges and water and sewer lines. About 68% of the capital assets are governmental and 32% are business-type activities. The total increase in the Town's investment in capital assets for the current year was 14%.



MANAGEMENT'S DISCUSSION & ANALYSIS
 For the year ended September 30, 2018
 (unaudited)

Table 3
Capital Assets at Year-end
 (net of accumulated depreciation)

	Governmental activities		Business-type activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 9,166,511	\$ 9,210,631	\$ 1,639,066	\$ 1,639,066	\$ 10,805,577	\$ 10,849,697
Construction in progress	9,392,093	19,899,456	14,378,345	5,234,854	23,770,438	25,134,310
Buildings	34,282,454	23,389,848	22,339	26,900	34,304,793	23,416,748
Infrastructure	86,928,488	71,781,836	60,266,691	59,862,563	147,195,179	131,644,399
Other improvements	18,907,723	13,636,734	-	-	18,907,723	13,636,734
Machinery and equipment	6,854,524	7,596,225	1,107,619	1,265,869	7,962,143	8,862,094
Total	\$ 165,531,793	\$ 145,514,730	\$ 77,414,060	\$ 68,029,252	\$ 242,945,853	\$ 213,543,982

Additional information on the Town's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration. At the end of the current fiscal year, the Town of Little Elm had total bonded debt outstanding of \$111,304,432, all of which is backed by the full faith and credit of the Town. Additional information on the Town's long-term debt can be found in Note 8 of the notes to the financial statements.

Table 4
Outstanding Debt
Outstanding Debt and Long-Term Liabilities

	Governmental activities		Business-type activities		Total Primary Government		Component Units	
	2018	2017	2018	2017	2018	2017	2018	2017
Gross bonded debt:								
General obligation	\$ 23,612,615	\$ 18,780,000	\$ 19,687,382	\$ 24,155,000	\$ 43,299,997	\$ 42,935,000	\$ -	\$ -
Certificates of obligation	33,220,000	25,836,155	22,445,000	20,533,843	55,665,000	46,369,998	-	-
Total bonded debt	56,832,615	44,616,155	42,132,382	44,688,843	98,964,997	89,304,998	-	-
Other long-term debt:								
Capital leases	-	17,932	-	-	-	17,932	-	-
Tax notes	855,000	1,205,000	-	-	855,000	1,205,000	-	-
Notes Payable	-	-	700,000	800,000	700,000	800,000	12,427,001	13,199,912
Unamortized premiums	1,984,780	1,336,631	1,782,654	1,933,728	3,767,434	3,270,359	-	-
Compensated absences	2,180,586	1,890,333	313,232	277,435	2,493,818	2,167,768	42,522	34,233
Total OPEB liability	289,083	-	30,135	-	319,218	-	-	-
Net pension liability	3,706,122	5,162,328	497,843	649,638	4,203,965	5,811,966	-	-
Total other long-term debt	9,015,571	9,612,224	3,323,864	3,660,801	12,339,435	13,273,025	12,469,523	13,234,145
Total	\$ 65,848,186	\$ 54,228,379	\$ 45,456,246	\$ 48,349,644	\$111,304,432	\$102,578,023	\$ 12,469,523	\$ 13,234,145

The Town continues to maintain favorable ratings from the bond rating agencies. Standard & Poor's rating continues to be AA. The outlook is stable. The rating reflects the Town's economic improvement driven by strong tax base growth coupled with sustained and very strong reserves.

Additional information on the Town's long-term debt can be found in Note 8 of the notes to the financial statements.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018

(unaudited)

Discretely Presented Component Units

The Little Elm Economic Development Corporation (LEEDC) and Little Elm Community Development Corporation (LECDC) have been included in the reporting entity as discretely presented components unit since they provide benefits to other entities aside from the Town. Separate audited financial statements are not issued for LEEDC or LECDC.

The Economic Development Corporation (LEEDC) is a legally separate governmental entity that promotes (a) existing business enterprise expansion and retention, and (b) new business enterprise development. The LEEDC's fund balance at fiscal year-end was \$1,185,455. This is an decrease of \$1,123,643 from the prior year. The LEEDC's total revenues were \$2,396,464 of which \$1,876,683 was from sales taxes. For the year, the LEEDC had expenditures of \$3,537,359. Of this amount \$2,207,508 was for economic and physical development and \$17,252 was lease principal payments.

Additional information on the LEEDC's long-term debt can be found in Note 8 of the notes to the financial statements.

The Community Development Corporation (LECDC) is a legally separate governmental entity tasked with bringing recreational, facility development and tourism opportunities to the Town and is supported by a voter approved sales tax. The LECDC's fund balance at year-end was \$500,340. This is an increase of \$95,592 from the prior year. The LECDC's total revenues were \$981,573 of which \$975,363 was from sales taxes. For the year, the LECDC had expenditures of \$885,981. Of this amount \$873,981 was for economic and physical development and \$12,000 for general government.

Economic Factors and Next Year's Budgets and Rates

Little Elm is still one of the fastest growing areas in the nation and with that comes a tremendous number of challenges, but also outstanding opportunity. With this growth, there are new sources and higher amounts of revenue, but there is also a mounting list of needs for programs and services to accommodate the growth and meet the expectations of the community.

Beginning with the 2016-2017 budget, our goal has been to successfully present a five-year balanced budget (technically a one-year budget and 4-year financial plan) to the Council for consideration. The purpose of the approach is to ensure that we are providing sustainable services in Little Elm's high growth environment. This is particularly important as we continue expanding services on Highway 380 to account for the new residents moving to the area.

For the last several years, it has been the goal to keep the tax rate at a competitive level with other cities and towns while still providing adequate revenue to fund the needs of a rapidly growing community now and into the future. This year, the Town was able to adopt a reduced tax rate of \$.64990 and still meet those objectives. The 2018-2019 rate is at \$.64990 per \$100 of taxable value. Of the total tax rate, \$.479431 is dedicated to general operations and maintenance (O&M) in the General Fund, and \$.170469 is dedicated to general obligation debt service (I&S).



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018

(unaudited)

Some of the more significant upcoming capital projects are listed below (Many of these projects cover several years, so they are not limited to the FY 18-19 budget). Projects include various parks and trail projects, WWTP expansion, Utility Service Center expansion and an aquatic center, several road reconstruction projects and Little Elm Honor Park.

The fiscal year 2018-2019 operating budget increased by 9% or \$4,287,752, from fiscal year 2017-2018 budget. General revenues for property taxes were budgeted with an 11% or \$2,319,932 increase from fiscal year 2017-2018 even after lowering the overall tax rate. General revenues for property taxes was budgeted with an 11% increase and a 5% increase was forecast for sales tax. Major increases in operational costs are:

Compensation and Benefits (includes Public Safety Plan Update)	\$1,400,000
Additional Personnel (not including Fire)	\$ 600,000
Cost of Water for NTMWD	\$ 700,000
IT Upgrades	\$ 500,000

The Vehicle Equipment Replacement Fund (VERF) was established in FY 2014. Annual payments are made by participating departments. The total transfer to this fund in the 2019 budget is \$1,467,447.

In order to maximize the life of Police vehicles to save maintenance costs and reduce replacement funding, staff has been working within the VERF to increase the number of Police units in the fleet. The goal is for each officer to be assigned one vehicle rather than one vehicle assigned to multiple officers. This will require the addition of 11 vehicles and will occur over several budget cycles. The initial vehicle purchases will be placed within the Police Department Operating budget.

The total number of budgeted employees or FTE's (Full-time equivalents) is 283 for a salary with benefits cost of \$26 million (including new positions). New positions budgeted for FY 2018-2019 are: Police: a Detective, three-Patrol Officers, and three-School Resource Officers; Administration: Assistant to the Town Manager; Wastewater Treatment: Operator; Parks: Equipment Operator and Maintenance Worker; Fleet-Small Engine Tech PT to FT; Facilities Maintenance: Craft Technician PT to FT; Library-PT Library Assistant; and Finance- PT Buyer.

The 2018-2019 budget reflects the efforts of the governing body and Town staff to address the need to provide services and facilities to support our vibrant and growing community, while still maintaining a strong financial position.

Tax Increment Reinvestment Zones and Public Improvement Districts

The Town Council created and participates in a total of four Tax Increment Reinvestment Zones ("TIRZ") (#3, #4, #5, and #6). The two original TIRZ created in 2008 referred to as TIRZ #1 and TIRZ #2 were terminated in November 2013. Subsequent to the creation of the two TIRZ zones, the Council on February 3, 2009 authorized and established the creation of the Little Elm Redevelopment Authority ("LERA"). The LERA was dissolved in February 2014. Upon the termination of TIRZ #1 in 2013, the Town created TIRZ #3 for the "Lakefront District" which consists of approximately 847 acres and has a base taxable assessed value of \$46,554,879.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018

(unaudited)

The Town Council created TIRZ #4 in December 2013 for the Valencia on the Lake multi-phase residential development of approximately 447.942 acres. The Town also created the Valencia Public Improvement District ("PID") in September 2013 to finance certain public infrastructure improvements. The PID and the TIRZ boundaries are contiguous as the goal of the TIRZ is to assist with the development. The Town issued two series of special assessment revenue bonds (the "PID Bonds") in the amounts of \$12,240,000 and \$4,000,000 in February 2014 that are secured solely from assessment revenues generated within the Valencia PID. The bonds funded major improvement projects to include certain roadway, water, wastewater and drainage improvements. On November 6, 2018 the Town issued three series of bonds for the Valencia on the Lake PID. The first series of revenue bonds refunded the 2014 Phase #1 Bonds, refinanced the Phase #1 reimbursement agreement portion of the 2014 bonds and restructured the debt service requirements by passage of Ordinance No.1445. The second series of revenue bonds were identified as the Improvement Area #2 Refunding and Improvement Bonds and were issued to refund a portion of the 2014 bonds used to finance improvements related to Improvement Area #2, refinance the pro rata portion of the Phase #2 local improvements and financed additional improvements relating in Improvement Area #2 thru Ordinance No. 1446. The Major Improvement Area Refunding Bonds were the third series of bonds issued in FY2018 thru Ordinance No. 1447. They were to refund the pro-rata portion of the 2014 Major Improvement Bonds related to Phases #2B, #3B, and #4.

The Town Council created TIRZ #5 in December 2014 with a base value of Real Property of \$6,728,553. The TIRZ #5 zone has removed sections and added additional property to create the existing 943.5 acre zone. The Hillstone Pointe PID No. 2 was created in June 2015. It is located at the northern section of TIRZ #5 and its boundaries are not contiguous. TIRZ #5 and Hillstone Pointe PID No. 2 are located near the 380 Corridor within the newly annexed area on the northern boundary of the Town of Little Elm. The Town issued \$6,000,000 in special assessment revenue bonds (the "PID Bonds") for Phases #1-1a thru approval of Ordinance No. 1422 on October 17, 2017. The Bonds are secured solely from assessment revenues generated within the Hillstone Pointe PID No. 2. The Bonds funded Phase 1 and Phase 1A improvements which included certain roadway, water system, storm drainage, sanitary sewer, screening and landscaping and other soft and miscellaneous improvements. The Town intends to issue the next set of Bonds for the Hillstone Pointe PID No. 2 Phases 2 and 3 thru Ordinance No. 1471.

The Town's third PID was created by the Town on October 2016 identified as the Rudman Tract Public Improvement District to finance the costs of certain public improvements for the benefit of property in the PID. TIRZ #6 was created in November 2016 to be contiguous with the Rudman Tract to help the area develop. The area encompasses 146.8 acres. The Town approved reimbursement obligations to finance the public improvements provided for the benefit of the property in the PID. Phase #1 Reimbursement Agreement of \$7,300,000 and Phase #2 Major Improvements Reimbursement Agreement of \$2,075,000 are secured by special assessments. The Town consented to the assignment of the reimbursement amounts between the OPLE Prairie Oaks Development, Inc. and the Public Finance Authority ("PFA") in May 2017. Bonds were issued by the Wisconsin PFA for the development in May 2017.

The Town on December 20, 2016 created the fourth PID for the Town of Little Elm. This PID is located at the Town's northern border next to Highway 380 and will be identified as Lakeside Estates PID No. 2. A TIRZ was not approved to assist with the development of this project. The Town authorized the issuance and sale of special assessment revenue bonds, Series 2017 in



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2018
(unaudited)

December 2017 for \$4,700,000. The bonds funded improvements which included certain roadway, water distribution system, storm drainage, sanitary sewer, screening and other PID Bond issuance costs.

The TIRZ and PID's in respect to their duration and the projects to be undertaken and other terms and conditions are set forth in the respective ordinances creating such zones and the public improvement districts. Although current plans provide that project costs for the zones will be paid or reimbursed from tax increments as collected, the Town may determine at a future date to issue bonds or other obligations secured by or payable in whole or in part from Tax Increment Revenues. The owners of the PID Bonds do not have the right to demand payment from any funds of the Town other than the pledged revenues, consisting primarily of assessments levied and collected against the property within the specific PID, and the Town has no obligation to pay the PID Bonds from any other source.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances. If you have questions about this report or need additional financial information, contact the Finance Department, Town of Little Elm, 100 W. Eldorado Parkway, Little Elm, Texas 75068, or call (214)975-0415.



LITTLE ELM

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Basic Financial Statements



LITTLE ELM

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Town of Little Elm, Texas
Statement of Net Position
September 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 56,053,709	\$ 21,824,429	\$ 77,878,138	\$ 2,879,263
Receivables (net of allowance for uncollectibles)	4,084,742	3,213,621	7,298,363	573,397
Due from other governments	-	185,562	185,562	-
Note receivable from primary government - current portion	-	-	-	100,000
Due from component unit	82,656	-	82,656	-
Lease receivable	-	-	-	3,030,748
Prepays	159,582	-	159,582	-
Inventories	55,632	271,619	327,251	-
Capital assets:				
Land	9,166,511	1,639,066	10,805,577	10,309,703
Depreciable assets, net	146,973,189	61,396,649	208,369,838	-
Construction in progress	9,392,093	14,378,345	23,770,438	-
Note receivable from primary government-noncurrent portion	-	-	-	600,000
Total assets	225,968,114	102,909,291	328,877,405	17,493,111
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	1,996,034	252,071	2,248,105	-
Deferred outflows - OPEB	26,033	2,714	28,747	-
Deferred loss on refunding	50,594	785,379	835,973	-
Total deferred outflows of resources	2,072,661	1,040,164	3,112,825	-
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	3,889,847	1,632,617	5,522,464	1,684,209
Due to primary government	-	-	-	82,656
Accrued interest payable	357,609	232,265	589,874	84,063
Retainage payable	579,470	480,620	1,060,090	-
Customer deposits	735,234	1,259,151	1,994,385	-
Non-current liabilities:				
Due within one year	5,903,174	2,848,867	8,752,041	616,697
Due in more than one year	59,945,012	42,607,379	102,552,391	11,852,826
Total liabilities	71,410,346	49,060,899	120,471,245	14,320,451
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	800,446	73,301	873,747	-
Total deferred inflows of resources	800,446	73,301	873,747	-
NET POSITION (DEFICIT)				
Net investment in capital assets	123,244,861	40,669,826	163,914,687	(2,117,298)
Restricted:				
Construction	7,397,801	-	7,397,801	-
Enabling legislation	2,945,111	2,766,515	5,711,626	4,620,086
Streetscape	661,368	-	661,368	-
Debt service	840,242	-	840,242	169,532
Other	530,233	-	530,233	-
Unrestricted	20,210,367	11,378,914	31,589,281	500,340
Total net position (deficit)	\$ 155,829,983	\$ 54,815,255	\$ 210,645,238	\$ 3,172,660

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

Town of Little Elm, Texas
Statement of Activities
For the Year Ended September 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Functions/Programs:				
Governmental activities:				
General government	\$ 10,282,772	\$ 1,326,909	\$ 17,082	\$ 22,873,598
Community service	2,837,652	4,720,087	-	367,000
Public safety	17,650,976	2,830,765	1,520,216	-
Public works	6,274,905	1,480,153	28,735	10,416,296
Culture and recreation	5,597,971	1,615,206	343,336	1,108,100
Interest expense	4,970,121	-	-	-
Total governmental activities	<u>47,614,397</u>	<u>11,973,120</u>	<u>1,909,369</u>	<u>34,764,994</u>
Business-type activities:				
Water and sewer services	13,442,962	17,754,577	186,111	2,224,101
Solid waste services	1,937,883	2,394,909	8,409	-
Total business-type activities	<u>15,380,845</u>	<u>20,149,486</u>	<u>194,520</u>	<u>2,224,101</u>
Total primary government	<u>\$ 62,995,242</u>	<u>\$ 32,122,606</u>	<u>\$ 2,103,889</u>	<u>\$ 36,989,095</u>
Component Units:				
Economic Development Corporation	2,794,460	\$ -	\$ 217,253	\$ -
Community Development Corporation	885,981	-	-	-
Total component units	<u>\$ 3,680,441</u>	<u>\$ -</u>	<u>\$ 217,253</u>	<u>\$ -</u>

General revenues:
Property taxes, penalty, and interest
Sales taxes
Franchise taxes
Interest
Miscellaneous
Gain on sale of capital assets
Transfers
Total general revenues and transfers
Cumulative effect of in net position
Net position at beginning of year
Cumulative effect of
change in accounting principal
Net position, end of year

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

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ 13,934,817	\$ -	\$ 13,934,817	\$ -
2,249,435	-	2,249,435	-
(13,299,995)	-	(13,299,995)	-
5,650,279	-	5,650,279	-
(2,531,329)	-	(2,531,329)	-
(4,970,121)	-	(4,970,121)	-
<u>1,033,086</u>	<u>-</u>	<u>1,033,086</u>	<u>-</u>
-	6,721,827	6,721,827	-
-	465,435	465,435	-
-	<u>7,187,262</u>	<u>7,187,262</u>	<u>-</u>
<u>\$ 1,033,086</u>	<u>\$ 7,187,262</u>	<u>\$ 8,220,348</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	(2,577,207)
-	-	-	(885,981)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,463,188)</u>
\$ 21,827,298	\$ -	\$ 21,827,298	\$ -
4,881,118	-	4,881,118	2,852,046
2,339,724	123,504	2,463,228	-
628,922	307,881	936,803	33,902
751,830	59,830	811,660	192,088
-	15,864	15,864	-
57,640	(57,640)	-	-
<u>30,486,532</u>	<u>449,439</u>	<u>30,935,971</u>	<u>3,078,036</u>
31,519,618	7,636,701	39,156,319	(385,152)
124,540,970	47,202,592	171,743,562	3,557,812
(230,605)	(24,038)	(254,643)	-
<u>\$ 155,829,983</u>	<u>\$ 54,815,255</u>	<u>\$ 210,645,238</u>	<u>\$ 3,172,660</u>

Town of Little Elm, Texas
 Balance Sheet
 Governmental Funds
 September 30, 2018

	General Fund	Debt Service	Capital Projects	PID Capital Projects	Nonmajor Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 21,337,433	\$ 1,095,967	\$ 22,175,952	\$ 5,230,433	\$ 3,131,244	\$ 52,971,029
Receivables, net of allowance for doubtful accounts						
Taxes	832,345	23,256	-	-	240,175	1,095,776
Franchise fees	833,079	-	-	-	-	833,079
Due from other governments	-	-	1,083,495	-	247,253	1,330,748
Due from component unit	-	82,656	-	-	-	82,656
Other	449,760	-	120,000	-	255,379	825,139
Due from other funds	142,358	-	-	-	-	142,358
Prepays	8,922	-	-	-	-	8,922
Inventories	55,632	-	-	-	-	55,632
Total assets	<u>\$ 23,659,529</u>	<u>\$ 1,201,879</u>	<u>\$ 23,379,447</u>	<u>\$ 5,230,433</u>	<u>\$ 3,874,051</u>	<u>\$ 57,345,339</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 1,940,845	\$ 4,028	\$ 1,477,726	\$ 50,907	\$ 253,681	\$ 3,727,187
Due to other funds	-	-	-	-	142,358	142,358
Accrued interest payable	-	25,214	-	-	-	25,214
Retainage payable	-	-	570,289	-	9,181	579,470
Deposits	79,290	-	655,944	-	-	735,234
Total liabilities	<u>2,020,135</u>	<u>29,242</u>	<u>2,703,959</u>	<u>50,907</u>	<u>405,220</u>	<u>5,209,463</u>
Deferred inflows of resources:						
Unavailable resources	426,582	19,432	999,113	-	191,480	1,636,607
Total deferred inflows of resources	<u>426,582</u>	<u>19,432</u>	<u>999,113</u>	<u>-</u>	<u>191,480</u>	<u>1,636,607</u>
FUND BALANCES						
Nonspendable	64,554	-	-	-	-	64,554
Restricted	-	1,153,205	18,924,801	5,179,526	3,419,809	28,677,341
Committed	-	-	751,574	-	-	751,574
Unassigned	21,148,258	-	-	-	(142,458)	21,005,800
Total fund balances	<u>21,212,812</u>	<u>1,153,205</u>	<u>19,676,375</u>	<u>5,179,526</u>	<u>3,277,351</u>	<u>50,499,269</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 23,659,529</u>	<u>\$ 1,201,879</u>	<u>\$ 23,379,447</u>	<u>\$ 5,230,433</u>	<u>\$ 3,874,051</u>	<u>\$ 57,345,339</u>

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

Town of Little Elm, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2018

Total governmental fund balances	\$ 50,499,269
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds financial statements (less \$3,026,014 in assets allocated to governmental activities from the internal service fund).	162,505,779
Accrued interest on governmental activities debt is not reported in the governmental funds financial statements until paid.	(332,395)
Revenues earned but not available within sixty days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.	1,636,607
Unamortized losses on refunding are not due and payable and, therefore are not reported in the governmental funds financial statements. In the government-wide financial statements, the losses are reported as deferred outflows of resources.	50,594
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. This amount represents the assets less the liabilities of the internal service fund allocated to governmental activities.	6,096,694
Net deferred outflows/inflows of resources related to the Town's net pension and total OPEB liability increases net position.	1,221,621
Net pension liability (\$3,706,122) and total OPEB liability (\$289,083) are not due and payable in the current period and therefore are not reported in the governmental funds financial statements.	(3,995,205)
Premiums on bond issuance for governmental activities debt are included in other financing sources in the governmental funds financial statements.	(1,984,780)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds financial statements.	(2,180,586)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds financial statements.	<u>(57,687,615)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 155,829,983</u></u>

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

Town of Little Elm, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended September 30, 2018

	General Fund	Debt Service	Capital Projects	PID Capital Projects	Nonmajor Governmental Funds	Total
Revenues:						
Taxes:						
Property taxes, penalty, and interest	\$ 15,759,245	\$ 5,604,360	\$ -	\$ -	\$ 500,329	\$ 21,863,934
General sales and use taxes	3,793,815	-	-	-	1,087,303	4,881,118
Other taxes and franchise fees	2,292,074	-	-	-	47,650	2,339,724
Licenses and permits	4,105,031	-	522,228	-	-	4,627,259
Intergovernmental	518,461	82,657	858,533	-	178,515	1,638,166
Charges for services	3,797,275	-	-	-	765,591	4,562,866
Impact fees	-	-	592,384	-	-	592,384
Fines and forfeitures	765,229	-	-	-	423,533	1,188,762
Contributions	-	-	1,108,100	22,910,869	141,667	24,160,636
Interest	327,787	41,706	128,201	56,639	37,655	591,988
Other revenues	375,998	-	216,287	-	70,374	662,659
Total revenues	31,734,915	5,728,723	3,425,733	22,967,508	3,252,617	67,109,496
Expenditures:						
Current:						
General government	4,052,008	-	-	6,439,915	142,462	10,634,385
Community services	2,519,977	-	317,675	-	-	2,837,652
Public safety	15,773,178	-	-	-	631,722	16,404,900
Public works	3,232,957	-	-	-	494,554	3,727,511
Culture and recreation	3,952,086	-	-	-	23,106	3,975,192
Debt service:						
Principal retirement	-	3,593,540	-	-	-	3,593,540
Interest and fiscal agent fees	-	1,515,266	226,813	-	-	1,742,079
Other debt service costs	-	-	-	3,240,426	-	3,240,426
Capital outlay	78,143	-	7,710,399	8,949,906	137,993	16,876,441
Total expenditures	29,608,349	5,108,806	8,254,887	18,630,247	1,429,837	63,032,126
Excess (deficiency) of revenues over (under) expenditures	2,126,566	619,917	(4,829,154)	4,337,261	1,822,780	4,077,370
Other financing sources (uses):						
Proceeds from sale of assets	103,668	-	-	-	-	103,668
Issuance of certificates of obligation	-	-	15,460,000	-	-	15,460,000
Premium on debt issuances	-	-	766,813	-	-	766,813
Insurance proceeds	321,485	-	-	-	-	321,485
Transfers in	2,786,598	-	1,854,000	-	-	4,640,598
Transfers out	(100,000)	(212,925)	(860,000)	(1,000,000)	(368,448)	(2,541,373)
Total other financing sources (uses)	3,111,751	(212,925)	17,220,813	(1,000,000)	(368,448)	18,751,191
Net change in fund balances	5,238,317	406,992	12,391,659	3,337,261	1,454,332	22,828,561
Fund balance at beginning of year	15,974,495	746,213	7,284,716	1,842,265	1,823,019	27,670,708
Fund balance, end of year	\$ 21,212,812	\$ 1,153,205	\$ 19,676,375	\$ 5,179,526	\$ 3,277,351	\$ 50,499,269

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

Town of Little Elm, Texas

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities For the Year Ended September 30, 2018

Net change in fund balances - total governmental funds	\$ 22,828,561
Amounts reported for governmental funds in the statement of activities are different because:	
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	1,066,516
Capital outlays are reported as expenditures in governmental funds ; however, in the government-wide financial statements, the costs are capitalized as capital asset additions. Disposals of capital assets reduce net position. This amount is the net effect of \$18,210,554 of capital outlay (\$18,826,538 less \$615,984 allocated from internal service fund) and \$113,870 of disposals along with a contribution of capital assets to the water and sewer fund for \$2,041,585.	16,055,099
Depreciation is not recognized as an expenditure in governmental funds since it does not require the use of current financial resources. The effect of recording depreciation expense is to decrease net position. Depreciation expense is \$5,949,128 less the internal service fund depreciation expense of \$491,597.	(5,457,531)
Donation of property from developers is not reported in the governmental funds. However, in the statement of activities, the fair market value of those assets is recognized as revenue.	9,295,108
The repayment of the principal of long term debt consumes the current financial resources of governmental funds, but has no effect on net position. The amortization of bond issuance costs, bond premiums, and deferred gain/loss on refunding of long term debt is reported in the statement of activities but does not require the use of current financial resources. Therefore the effect of the amortization of these various items are not reported in the statement of revenues, expenses, and changes in fund balance. This amount represents the net effect of the following items:	
o Debt issued (\$15,460,000)	(15,460,000)
o Bond premiums from issuance (\$766,813)	(766,813)
o Repayments of bonds \$3,593,540	3,593,540
o Amortization of premium on bonds, \$118,664, less the amortization of deferred loss on refunding (\$12,863)	105,801
Governmental funds reflect capital lease proceeds as other financing sources and payments as expenditures. This amount represents the amount of year payments which is reflected as a reduction of liabilities in the government-wide financial statements.	17,932
Changes in compensated absences are not reported in the fund financial statements. The net effect of the current year increase is to decrease net position.	(290,253)
The following is the net effect of the current year of the net decreases in the TMRS pension and total OPEB liability, (\$1,398,718), and net increases of deferred outflows/inflows for TMRS pension and OPEB, \$1,441,278.	(42,560)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net income of the internal service fund is allocated entirely to governmental activities.	662,635
Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental	(88,417)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 31,519,618</u>

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

Town of Little Elm, Texas
Statement of Net Position
Proprietary Funds
September 30, 2018

	Business-type Activities			Governmental Activities- Internal Service Fund
	Enterprise funds			
	Water and Sewer	Solid Waste	Total	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets:				
Cash and cash equivalents	\$ 21,460,109	\$ 364,320	\$ 21,824,429	\$ 3,082,680
Receivables (net of allowance for uncollectibles)	2,970,342	243,279	3,213,621	-
Due from other governments	185,562	-	185,562	-
Prepays	-	-	-	150,660
Inventories	271,619	-	271,619	-
Total current assets	24,887,632	607,599	25,495,231	3,233,340
Capital assets:				
Land	1,639,066	-	1,639,066	-
Depreciable assets, net	61,241,224	155,425	61,396,649	3,026,014
Construction in progress	14,378,345	-	14,378,345	-
Total capital assets	77,258,635	155,425	77,414,060	3,026,014
Total assets	102,146,267	763,024	102,909,291	6,259,354
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	252,071	-	252,071	-
Deferred outflows - OPEB	2,714	-	2,714	-
Deferred loss on refunding	785,379	-	785,379	-
Total deferred outflows of resources	1,040,164	-	1,040,164	-
Total assets and deferred outflows of resources	\$ 103,186,431	\$ 763,024	\$ 103,949,455	\$ 6,259,354
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable and other accrued expenses	\$ 1,460,170	\$ 172,447	\$ 1,632,617	\$ 162,660
Accrued interest payable	232,265	-	232,265	-
Retainage payable	480,620	-	480,620	-
Customer deposits	1,259,151	-	1,259,151	-
Current portion of long-term debt	2,848,380	487	2,848,867	-
Total current liabilities	6,280,586	172,934	6,453,520	162,660
Long-term debt, net of current portion	42,607,379	-	42,607,379	-
Total liabilities	48,887,965	172,934	49,060,899	162,660
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	73,301	-	73,301	-
Net position:				
Net investment in capital assets	40,514,401	155,425	40,669,826	3,026,014
Restricted for:				
Impact fees	2,766,515	-	2,766,515	-
Unrestricted	10,944,249	434,665	11,378,914	3,070,680
Total net position	54,225,165	590,090	54,815,255	6,096,694
Total liabilities, deferred inflows of resources and net position	\$ 103,186,431	\$ 763,024	\$ 103,949,455	\$ 6,259,354

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

Town of Little Elm, Texas

Statement of Revenues, Expenses, and Changes in Fund

Net Position – Proprietary Funds

For the Year Ended September 30, 2018

	Business-type Activities			Governmental- Activities Internal Service Fund
	Enterprise funds			
	Water and Sewer	Solid Waste	Total	
Operating revenues:				
Water sales	\$ 10,085,661	\$ -	\$ 10,085,661	\$ -
Charges for sewer services	6,956,761	-	6,956,761	-
Tap, connections, and other fees	657,502	-	657,502	-
Charges for solid waste	-	2,394,140	2,394,140	-
Contributions	-	-	-	1,246,836
Other revenue	300,594	769	301,363	-
	<u>18,000,518</u>	<u>2,394,909</u>	<u>20,395,427</u>	<u>1,246,836</u>
Operating expenses:				
Personnel services	2,263,598	49,911	2,313,509	-
Contractual services	655,730	1,791,686	2,447,416	-
Repairs and maintenance	325,248	53,566	378,814	-
Supplies	5,814,543	16,311	5,830,854	129,538
Depreciation and amortization	2,239,169	26,031	2,265,200	491,597
Other operating expenses	684,612	378	684,990	-
	<u>11,982,900</u>	<u>1,937,883</u>	<u>13,920,783</u>	<u>621,135</u>
Operating income	<u>6,017,618</u>	<u>457,026</u>	<u>6,474,644</u>	<u>625,701</u>
Non-operating revenues (expenses):				
Taxes	-	123,504	123,504	-
Gain on sale of assets	15,864	-	15,864	-
Interest income	299,831	8,050	307,881	36,934
Interest expense	(1,460,062)	-	(1,460,062)	-
	<u>(1,144,367)</u>	<u>131,554</u>	<u>(1,012,813)</u>	<u>36,934</u>
Total non-operating revenue (expenses)	<u>(1,144,367)</u>	<u>131,554</u>	<u>(1,012,813)</u>	<u>36,934</u>
Income before capital contributions and transfers	4,873,251	588,580	5,461,831	662,635
Capital contributions and transfers				
Capital contributions	2,913,841	8,409	2,922,250	-
Impact fees	1,351,845	-	1,351,845	-
Transfers in	212,925	-	212,925	-
Transfers out	(1,746,150)	(566,000)	(2,312,150)	-
	<u>2,732,461</u>	<u>(557,591)</u>	<u>2,174,870</u>	<u>-</u>
Total capital contributions and transfers	<u>2,732,461</u>	<u>(557,591)</u>	<u>2,174,870</u>	<u>-</u>
Change in net position	7,605,712	30,989	7,636,701	662,635
Cumulative effect of change in accounting principal	(24,038)	-	(24,038)	-
Net position at beginning of year	46,643,491	559,101	47,202,592	5,434,059
Net position, end of year	<u>\$ 54,225,165</u>	<u>\$ 590,090</u>	<u>\$ 54,815,255</u>	<u>\$ 6,096,694</u>

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

Town of Little Elm, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

	Business-type Activities			Governmental Activities- Internal Service Fund
	Enterprise Funds			
	Water and Sewer	Solid Waste	Total	
Cash flow from operating activities:				
Receipts from customers and users	\$ 17,699,158	\$ 2,372,102	\$ 20,071,260	\$ 1,246,836
Payments to suppliers	(8,121,279)	(1,893,594)	(10,014,873)	(141,868)
Payments to employees	(1,609,900)	(13,219)	(1,623,119)	-
Net cash provided by operating activities	<u>7,967,979</u>	<u>465,289</u>	<u>8,433,268</u>	<u>\$ 1,104,968</u>
Cash flow from noncapital financing activities:				
Transfers in	212,925	-	212,925	-
Transfers out	(1,746,150)	(566,000)	(2,312,150)	-
Taxes	-	123,504	123,504	-
Net cash used by noncapital financing activities	<u>(1,533,225)</u>	<u>(442,496)</u>	<u>(1,975,721)</u>	<u>-</u>
Cash flow from capital financing activities:				
Acquisition of capital assets	(8,817,629)	8,409	(8,809,220)	(615,984)
Proceeds from sale of capital assets	15,864	-	15,864	-
Impact fees	1,351,845	-	1,351,845	-
Principal paid on capital debt	(2,656,461)	-	(2,656,461)	-
Interest paid on capital debt	(1,473,357)	-	(1,473,357)	-
Net cash provided by (used by) capital financing activities	<u>(11,579,738)</u>	<u>8,409</u>	<u>(11,571,329)</u>	<u>(615,984)</u>
Cash flow from investing activities:				
Interest and dividends on investments	299,831	8,050	307,881	36,934
Net cash provided by investing activities	<u>299,831</u>	<u>8,050</u>	<u>307,881</u>	<u>36,934</u>
Net increase (decrease) in cash and cash equivalents	(4,845,153)	39,252	(4,805,901)	525,918
Cash and cash equivalents, beginning of the year	26,305,262	325,068	26,630,330	2,556,762
Cash and cash equivalent, ending of the year	<u>\$ 21,460,109</u>	<u>\$ 364,320</u>	<u>\$ 21,824,429</u>	<u>\$ 3,082,680</u>
Noncash transactions:				
Capital contributions	<u>\$ 2,913,841</u>	<u>\$ 8,409</u>	<u>\$ 2,922,250</u>	<u>\$ -</u>

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

Town of Little Elm, Texas
Statement of Cash Flows – Continued
Proprietary Funds
For the Year Ended September 30, 2018

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>	<u>Internal Service Fund</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 6,017,618	\$ 457,026	\$ 6,474,644	\$ 625,701
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	2,239,169	26,031	2,265,200	491,597
Pension and OPEB expense (net)	4,437	-	4,437	-
Effects of changes in assets and liabilities:				
Decrease (increase) in receivables	(235,941)	(22,807)	(258,748)	-
Decrease (increase) in inventories	(65,419)	-	(65,419)	-
Decrease (increase) in prepaids	412	-	412	-
Increase (decrease) in payables	(75,739)	5,465	(70,274)	(12,330)
Increase (decrease) in deposits	47,219	-	47,219	-
Increase (decrease) in compensated absences	36,223	(426)	35,797	-
Net cash provided by operating activities	<u>\$ 7,967,979</u>	<u>\$ 465,289</u>	<u>\$ 8,433,268</u>	<u>\$ 1,104,968</u>

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

Town of Little Elm, Texas
Statement of Fiduciary Net Position
Agency Fund
September 30, 2018

	PID Agency Fund
ASSETS	
Cash and cash equivalents	\$ 3,851,886
	<hr/>
Total Assets	\$ 3,851,886
	<hr/> <hr/>
LIABILITIES	
Liability to bond holders	\$ 3,851,886
	<hr/>
Total Liabilities	\$ 3,851,886
	<hr/> <hr/>

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

Town of Little Elm, Texas
Statement of Net Position
Discretely Presented Component Units
September 30, 2018

ASSETS	Economic Development Corporation	Community Development Corporation	Total
Current assets:			
Cash and cash equivalents	\$ 2,570,010	\$ 309,253	\$ 2,879,263
Receivables (net of allowance for uncollectibles)	382,265	191,132	573,397
Leases receivable	3,030,748	-	3,030,748
Note receivable from primary government-current	100,000	-	100,000
Note receivable from primary government-noncurrent	600,000	-	600,000
Land	10,309,703	-	10,309,703
	<u>16,992,726</u>	<u>500,385</u>	<u>17,493,111</u>
Total Assets			
LIABILITIES			
Current liabilities:			
Accounts payable and other current liabilities	1,684,164	45	1,684,209
Due to primary government	82,656	-	82,656
Accrued interest payable	84,063	-	84,063
Non-current liabilities:			
Due within one year	616,697	-	616,697
Due in more than one year	11,852,826	-	11,852,826
	<u>14,320,406</u>	<u>45</u>	<u>14,320,451</u>
Total Liabilities			
NET POSITION			
Net investment in capital assets	(2,117,298)	-	(2,117,298)
Restricted by enabling legislation	4,620,086	-	4,620,086
Restricted for debt service	169,532	-	169,532
Unrestricted	-	500,340	500,340
	<u>\$ 2,672,320</u>	<u>\$ 500,340</u>	<u>\$ 3,172,660</u>
Total Net Position			

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

Town of Little Elm, Texas
Statement of Activities
Discretely Presented Component Units
For the Year Ended September 30, 2018

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:			
Economic Development Corporation	\$ 2,794,460	\$ 217,253	\$ -
Community Development Corporation	885,981	-	-
Total component units	\$ 3,680,441	\$ 217,253	\$ -

General revenues:
Sales taxes
Investment income
Miscellaneous
Total general revenues
Change in net position
Net position - beginning of year

Net position - end of year

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

Component Units		
Economic Development Corporation	Community Development Corporation	Total
\$ (2,577,207)	\$ -	\$ (2,577,207)
-	(885,981)	(885,981)
<u>\$ (2,577,207)</u>	<u>\$ (885,981)</u>	<u>\$ (3,463,188)</u>
1,876,683	975,363	\$ 2,852,046
27,692	6,210	33,902
192,088	-	192,088
<u>2,096,463</u>	<u>981,573</u>	<u>3,078,036</u>
(480,744)	95,592	(385,152)
<u>3,153,064</u>	<u>404,748</u>	<u>3,557,812</u>
<u>\$ 2,672,320</u>	<u>\$ 500,340</u>	<u>\$ 3,172,660</u>



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Town of Little Elm, Texas

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

The Town of Little Elm, Texas (the Town) is a municipal corporation governed by an elected mayor and six-member Town Council and provides the following services by its charter: public safety, public works, health, culture, recreation, community development, water and sewer utilities, and solid waste utilities.

The accounting and reporting policies of the Town conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that are used. The more significant accounting policies of the Town are described below.

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34, which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the Town's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net position and statement of activities. Significantly, the Town's statement of net position includes both noncurrent assets and noncurrent liabilities of the Town. In addition, the government-wide statement of activities reflects depreciation expenses on the Town's capital assets, including infrastructure.

In addition to the government-wide financial statements, the Town has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

B. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the Town is considered to be financially accountable. As required by GAAP, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the Town.

Little Elm Economic Development Corporation

The Little Elm Economic Development Corporation (EDC) is a duly-established municipal corporation created under the provisions of Section 4A of the Development Corporation Act of 1976 as revised, with approval of the governing body of the Town of Little Elm. The EDC, a separate non-profit corporation, was formed in 1993 for the public purposes of the promotion and development of new and expanded business enterprises to provide and encourage employment in the furtherance of the public welfare and is operated primarily within the geographic boundaries of the Town. The affairs of the EDC shall be managed by a Board of Directors consisting of five members who shall be appointed by the Town council: one director from the Town council and four directors at-large. The EDC is supported by a half-cent sales tax voted by referendum in 1993. An Executive Director is appointed by the EDC Board to carry out the Board's administrative and policy initiatives. The EDC is considered part of the Town's reporting entity and presented in the accompanying basic financial statements as a discretely presented component unit. The EDC does not issue separate financial statements.

Town of Little Elm, Texas

Notes to the Financial Statements

Little Elm Community Development Corporation

The Little Elm Community Development Corporation (CDC) is a separate entity formed in February 2007 to improve and expand park and recreation facilities from revenue generated through the Type 4B sales tax. The CDC operates under the authority of Section 2(11)-(A)-(E) and Section 4B of Article 5190.6 of Revised Civil Statutes, as amended. The CDC is considered part of the Town's reporting entity and presented in the accompanying basic financial statements as a discretely presented component unit. The CDC is a discretely presented component unit under the criteria of board appointment and removal by the Town Council, approval and oversight of capital projects as well as budget authorization and approval. The CDC does not issue separate financial statements.

Tax Increment Reinvestment Zone Number Three (TIRZ #3)

The Town created Tax Increment Reinvestment Zone Number Three (TIRZ#3) to provide additional financing resources to further enhance development within the zone. The Town Council appoints a Board and Board members are removable by the Town Council. TIRZ#3 commenced October 2013 and will terminate on December 31, 2043, or at an earlier time designated by subsequent ordinance, or at such time, subsequent to the issuance of tax increment bonds, if any, that all project costs, tax increment bonds, notes and obligations of the zone have been paid in full. Although TIRZ#3 is fiscally dependent on the Town, as the Town approves their budgets and any debt issuances, TIRZ#3 qualifies for blending because the Board is the same as the Town Council. Previous to fiscal year 2017, TIRZ#3 had been reported as a discretely presented component unit, but is now reported as a blended component unit of the Town as ordinance #1413 was approved in 2017 clarifying the composition of the Board as described above. TIRZ#3 does not issue separate financial statements.

Tax Increment Reinvestment Zone Number Four (TIRZ #4)

The Town created Tax Increment Reinvestment Zone Number Four (TIRZ#4) to provide additional financing resources to further enhance development within the zone. The Town Council appoints a Board and Board members are removable by the Town Council. TIRZ#4 commenced December 2013 and will terminate on December 31, 2048, or at an earlier time designated by subsequent ordinance, or at such time, subsequent to the issuance of tax increment bonds, if any, that all project costs, tax increment bonds, notes and obligations of the zone have been paid in full. TIRZ#4 is fiscally dependent on the Town, as the Town approves their budgets and any debt issuances. TIRZ#4 qualifies for blending because the Board is the same as the Town Council. TIRZ#4 is reported as a blended component unit of the Town and it does not issue separate financial statements.

Tax Increment Reinvestment Zone Number Five (TIRZ #5)

The Town created Tax Increment Reinvestment Zone Number Five (TIRZ#5) to provide additional financing resources to further enhance development within the zone. The Town Council appoints a Board and Board members are removable by the Town Council. TIRZ#5 commenced December 2014 and will terminate on December 31, 2049, or at an earlier time designated by subsequent ordinance, or at such time, subsequent to the issuance of tax increment bonds, if any, that all project costs, tax increment bonds, notes and obligations of the zone have been paid in full. TIRZ#5 is fiscally dependent on the Town, as the Town approves their budgets and any debt issuances. TIRZ#5 qualifies for blending because the Board is the same as the Town Council. TIRZ#5 is reported as a blended component unit of the Town and it does not issue separate financial statements.

Town of Little Elm, Texas

Notes to the Financial Statements

Tax Increment Reinvestment Zone Number Six (TIRZ #6)

The Town created Tax Increment Reinvestment Zone Number Six (TIRZ#6) to provide additional financing resources to further enhance development within the zone. The Town Council appoints a Board and Board members are removable by the Town Council. TIRZ#6 commenced November 1, 2016 and will terminate on December 31, 2052, or at an earlier time designated by subsequent ordinance, or at such time, subsequent to the issuance of tax increment bonds, if any, that all project costs, tax increment bonds, notes and obligations of the zone have been paid in full. TIRZ#6 is fiscally dependent on the Town, as the Town approves their budgets and any debt issuances. TIRZ#6 qualifies for blending because the Board is the same as the Town Council. TIRZ#6 is reported as a blended component unit of the Town and it does not issue separate financial statements.

C. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund 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 non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. Additionally, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, the debt service fund, the capital projects fund, and the Valencia capital projects fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues or expenditures /expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining section of the financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements; however, interfund services provided and used are not eliminated in the process of consolidation.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Town of Little Elm, Texas

Notes to the Financial Statements

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. 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 government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board.

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

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The governmental fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board.

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

Fund Accounting

The following major funds are used by the Town:

1. Governmental Funds:

Governmental Funds are those through which most governmental functions of the Town are financed. The acquisition, use and balances of the Town's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of changes in financial position, rather than on net income determination. The following is a description of the major Governmental Funds of the Town:

General Fund is the Town's primary operating fund. This fund is used to account for all financial resources of the general government, except those required to be accounted for in other funds.

Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general obligation long-term debt paid from taxes levied by the Town.

Capital Projects Fund is used to account for the acquisition or construction of capital facilities and improvements except those being financed by proprietary funds.

PID Capital Projects Fund is used to account for the acquisition or construction of capital facilities and improvements relating to the Valencia, Lakeside and Hillstone Public Improvement Districts (PIDs).

The Town reports the following non-major governmental funds.

Town of Little Elm, Texas

Notes to the Financial Statements

Grants Fund accounts for grants distributed to the Town by the Texas State Comptroller of Public Accounts, the Department of Homeland Security, and other organizations such as the Texas Library Archives, and the Law Enforcement Officer Safety Education Program.

Donations Fund accounts for donations made by civic organizations, businesses, and citizens for specific uses which include the library, animal control center, police, and fire departments. Donations are generally donated for the purchase of equipment.

Forfeitures Fund accounts for fines and forfeiture of property resulting from criminal cases within the boundaries of the Town that have been adjudicated by the State of Texas in District Court.

Street Maintenance Fund accounts for the Town's 1/4 cent sales tax, which was approved by the citizens of Little Elm in May of 2009 and is restricted for the purpose of street maintenance.

Red Light Camera Fund accounts for proceeds and expenses related to red-light cameras.

Stormwater Drainage Fund accounts for fees charged for stormwater drainage services.

PEG Fund accounts for fees used to defer the cost of streaming Council meeting videos of all meetings to meet the objective of local government transparency.

SAFER Grant Fund accounts for proceeds and expenditures relating to the SAFER grant.

Little Elm Parks Fund accounts for fees used to help fund parks and recreational spaces.

Little Elm TIRZ#3 Fund accounts for proceeds and expenditures related to Little Elm Tax Increment Reinvestment Zone Number 3.

Little Elm TIRZ#4 Fund accounts for proceeds and expenditures related to Little Elm Tax Increment Reinvestment Zone Number 4.

Little Elm TIRZ#5 Fund accounts for proceeds and expenditures related to Little Elm Tax Increment Reinvestment Zone Number 5.

Little Elm TIRZ#6 Fund accounts for proceeds and expenditures related to Little Elm Tax Increment Reinvestment Zone Number 6.

Highway 380 MMD fund accounts for the Town's contributions to the Highway 380 Municipal Management District (MMD).

The Town reports the following fiduciary fund:

Public Improvement District (PID) Agency Fund accounts for bond proceeds, assessments, and related debt associated with the issuance of bonds issued by the Town as an agent for the Valencia, Hillstone, and Lakeside Public Improvement Districts.

Governmental funds with legally adopted annual budgets include the General Fund and the Debt Service Fund.

Town of Little Elm, Texas

Notes to the Financial Statements

2. Proprietary Funds:

Proprietary Funds are accounted for using an economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

The proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses including depreciation on capital assets) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The following is a description of the major enterprise funds of the Town:

The Water and Sewer Fund is used to account for the operations of providing water and sewer services to residential and commercial customers.

The Solid Waste Fund is used to account for the collection of trash and recyclables from residential users.

Additionally, the Town reports an Internal Service Fund to account for the financing of goods or services provided by one department to other departments within the Town. The Vehicle Replacements fund is used to account for the acquisition and disposal of vehicles and large dollar equipment for the Town.

E. Cash and Cash Equivalents

Cash of all funds, excluding the Town's payroll clearing account, medical card account, and certain escrow accounts, is pooled into a common interest-earning bank account in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash has equity therein, and interest earned on these monies is allocated based upon relative equity at each month end.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Town.

The Town may invest in certificates of deposit, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements. Investments purchased with pooled cash, as well as separate investments, are recorded at fair value. The fair value is based on the market price. The fair value of the local government investment pools are the same as the fair value of the pool shares.

F. Inventories, Prepaid Items and Deferred Charges

Inventory is valued at cost (first-in, first-out). The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by non-spendable fund balance, which indicates that they do not constitute "available, spendable resources" even though they are a component of fund balance. Inventories in the Proprietary Funds consist of meters and various supplies.

Prepaid balances are for payments made by the Town for which benefits extend beyond September 30, 2018, and the non-spendable fund balance has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

Town of Little Elm, Texas
Notes to the Financial Statements

G. Accounts Receivable

Accounts receivable consist primarily of amounts due from citizens for various services provided by the Town as well as property taxes, sales taxes receivable, franchise taxes and amounts due from other governments. Management evaluates the adequacy of the allowance for doubtful accounts based on a review of the aging of accounts and other specific information known by management.

H. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

I. 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 government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at the acquisition value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities acquired with tax-exempt debt is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 40
Infrastructure	10 - 25
Water and sewer system	40
Improvements other than buildings	7 - 40
Machinery and equipment	3 - 20

J. Interfund Transactions

During the course of normal operations, the Town has transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. There is no interest charged between funds for these advances.

K. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Town of Little Elm, Texas

Notes to the Financial Statements

L. Long-term Obligations

In the government-wide financial statements and proprietary 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 straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

M. Pensions and Other Postemployment Benefits (OPEB)

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

Information regarding the Town's Total Pension and Total OPEB Liabilities is obtained from TMRS through reports prepared for the Town by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

N. Deferred Outflows of Resources

In addition to assets, the statement of financial position and/or balance sheet 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 Town has the following items that qualify for reporting in this category:

Deferred Loss on Refunding – these deferred outflows result 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.

Pension / OPEB – these deferred outflows result from pension/ OPEB contributions after the measurement date (deferred and recognized in the following fiscal year) and/or differences in projected and actual earnings on pension / OPEB assets (deferred and amortized over a closed five year period).

Town of Little Elm, Texas

Notes to the Financial Statements

O. Fund Equity

Governmental Funds:

The Town has adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions.

The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the Town classifies governmental fund balances as follows:

Nonspendable: includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted: includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed: includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision making authority, which is the Town Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance adopted by the Town Council. The ordinance must either adopt or rescind the commitment, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned: includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used by the Town for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Town Council has authorized the Town Manager or his or her designee as the official authorized person to assign fund balance to a specific purpose as approved by the fund balance policy.

Unassigned fund balance: is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Order of Expenditure of Funds: When multiple categories of fund balance are available for expenditure, the Town will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Economic stabilization: It is the goal of the Town to achieve and maintain an unassigned fund balance in the General Fund equal to 25% of the budgeted expenditures in the General Fund for unanticipated expenditures, unforeseen revenue fluctuations, or other adverse circumstances. The fund balance level may be reduced to the equivalent of 15% of budgeted expenditures in unusual financial circumstances. If such a situation should occur, the Town will implement necessary corrective action with a three-year plan to restore the unassigned fund balance to the equivalent of 25% of budgeted expenditures.

Town of Little Elm, Texas

Notes to the Financial Statements

Proprietary Funds:

Net position represents the difference between assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent debt proceeds.

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

P. Subsequent Events

The Town has evaluated all events or transactions that occurred after September 30, 2018 up through February 13, 2019, the date the financial statements were issued. Significant subsequent events are described in Note 16.

Note 2. Cash and Investments

The Town has adopted an investment policy pursuant to Chapter 2256 of the Texas Government Code, which authorizes the Town's investments in United States government obligations and its agencies, obligations of Texas and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers' acceptances, government pools, and money market funds. The Town selects its investments based on safety, liquidity, yield, and public trust.

The EDC can invest in obligations of the United States Treasury, the State of Texas, certain United States Agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds, and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon's Civil Statutes).

At year end, the carrying amount of the Town's deposits was \$75,566,949 and the bank balance was \$75,830,232. The bank balance was completely covered by federal deposit insurance and collateral held by the pledging financial institution in the Town's name.

Cash and investments as of September 30, 2018 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government:	
Cash and cash equivalents	\$ 77,878,138
Fiduciary Fund:	
Cash and cash equivalents	3,851,886
Component Unit:	
Cash and cash equivalents	<u>2,879,263</u>
Total cash and investments	<u><u>\$ 84,609,287</u></u>
Cash on hand:	
Cash on hand:	\$ 3,050
Deposits with financial institution	75,566,449
Investments	<u>9,039,788</u>
Total cash and investments	<u><u>\$ 84,609,287</u></u>

Town of Little Elm, Texas

Notes to the Financial Statements

The table below identifies the investment types that are authorized for the Town by the Public Funds Investment Act. (Government Code Chapter 2256) The table also identifies certain provisions of the Town's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury obligations	2 years	None	None
U.S. Agency obligations	2 years	None	None
Certificates of deposit	2 years	None	None
Direct repurchase agreements	2 years	None	None
No-load money market mutual funds	2 years	None	None
Direct obligations of State of Texas	2 years	None	None
Investment pools	2 years	None	None

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

In accordance with its investment policy, the Town manages its exposure to declines in fair value by limiting the weighted average maturity of its non-bond proceed investments to no more than nine months.

As of September 30, 2018, the Town had the following investments:

Investment Type	Amount	Weighted Average Maturity
Mutual Funds	\$ 9,039,788	26

Disclosures relating to credit risk

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

Investment Type	Amount	Minimum Legal Rating	Rating as of Year End
Mutual Funds	\$ 9,039,788	N/A	AAA-m

Concentration of credit risk

The Town's investment policy is to avoid a concentration of assets in a specific maturity, a specific issue, or a specific class of investments.

Town of Little Elm, Texas

Notes to the Financial Statements

Custodial credit risk

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

The Town requires all deposits to be covered by Federal Depository Insurance Corporation (FDIC) insurance and/or collateralized by qualified securities pledged by the Town's depository in the Town's name and held by the depository's agent.

As of September 30, 2018 the Town deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

The Town 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 which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

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

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

The Town has recurring fair value measurements as presented in the table below. The Town's investment balances and weighted average maturity of such investments are as follows:

	Fair Value Measurements Using				Percent of Total Investments	Weighted Average Maturity (Days)
	Value at September 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<i>Investments by Fair Value Level:</i>						
<i>Marketable Equity Securities:</i>						
Mutual Funds	\$ 9,039,788	\$ 9,039,788	\$ -	\$ -	100.00%	26
<i>Total Value</i>	<u>\$ 9,039,788</u>	<u>\$ 9,039,788</u>	<u>\$ -</u>	<u>\$ -</u>		

Town of Little Elm, Texas

Notes to the Financial Statements

Mutual funds reported as level 1 are valued at the net asset value (NAV) of shares held by the Town at year end. The NAV is a quoted price in an active market.

Note 3. Property Taxes

Taxes are levied on October 1 and are payable until January 31 without penalty. Property taxes attach as an enforceable lien on property as of January 1. The total assessed value upon which the fiscal 2018 levy was based was approximately \$3,326,000,000. Such assessed value was computed based on 100% appraised values.

Article XI, Section 5 of the Texas Constitution allows a tax rate up to \$2.50 per \$100 valuation. Further, Section 8.03B of the Town's Home-Rule Charter provides that the "Town Council shall have the power, and is hereby authorized to levy, assess, and collect annual taxes not to exceed the maximum limit set by the Constitution and laws of the State of Texas, as they now exist or as they may be amended, on each one hundred dollars (\$100.00) assessed valuation". The combined tax rate to finance general governmental service and debt service for the year ended September 30, 2018 was \$0.657671 per \$100 of assessed valuation. Current tax collections for the year ended September 30, 2018 were approximately 99% of the tax levy.

Note 4. Receivables

Receivables as of year-end for the government's individual major funds, non-major funds in the aggregate and discretely presented component units, including the applicable allowances for uncollectible accounts as of September 30, 2018 are as follows:

	Governmental Funds				Total
	General	Debt Service	Capital Projects	Nonmajor Funds	
Ad valorem taxes	\$ 84,452	\$ 28,930	\$ -	\$ -	\$ 113,382
Sales taxes	764,530	-	-	240,175	1,004,705
Court	1,150,772	-	-	801,882	1,952,654
Ambulance	598,221	-	-	-	598,221
Storm drainage	-	-	-	140,668	140,668
Franchise fees	833,079	-	-	-	833,079
Intergovernmental	-	-	1,083,495	247,253	1,330,748
Other	66,210	-	120,000	46,149	232,359
Gross receivables	3,497,264	28,930	1,203,495	1,476,127	6,205,816
Less: allowances	(1,382,080)	(5,674)	-	(733,320)	(2,121,074)
Net total receivables	\$ 2,115,184	\$ 23,256	\$ 1,203,495	\$ 742,807	\$ 4,084,742

Town of Little Elm, Texas
Notes to the Financial Statements

	Proprietary Funds		
	Water and Sewer	Solid Waste	Total
Customer accounts	\$ 2,502,397	\$ 266,469	\$ 2,768,866
Other	719,808	-	719,808
Gross receivables	<u>3,222,205</u>	<u>266,469</u>	<u>3,488,674</u>
Less: allowances	<u>(251,863)</u>	<u>(23,190)</u>	<u>(275,053)</u>
Net total receivables	<u>\$ 2,970,342</u>	<u>\$ 243,279</u>	<u>\$ 3,213,621</u>

	Component Units		
	EDC	CDC	Total
Sales taxes	\$ 382,265	\$ 191,132	\$ 573,397
Total receivables	<u>\$ 382,265</u>	<u>\$ 191,132</u>	<u>\$ 573,397</u>

Direct-Financing Lease

EDC leases certain Corporation-owned property to a company for use in its business. The lease is classified as a direct-financing lease and expires in 2043. The following are the components of the EDC's net investment in direct financing leases and reported as leases receivable as of September 30, 2018:

Total minimum lease payments to be received	\$ 4,984,813
less: unearned interest income	(1,954,065)
Net investment in direct financing lease	<u>\$ 3,030,748</u>

As of September 30, 2018, minimum lease payments are as follows:

Fiscal Year	
2019	\$ 205,559
2020	205,559
2021	205,559
2022	205,559
2023	205,559
2024-2028	1,027,797
2029-2033	1,027,797
2034-2038	1,027,797
2039-2043	873,627
	<u>\$ 4,984,813</u>

Town of Little Elm, Texas
Notes to the Financial Statements

Note 5. Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 9,210,631	\$ -	\$ (44,120)	\$ -	\$ 9,166,511
Construction in progress	19,899,456	13,589,136	-	(24,096,499)	9,392,093
Total capital assets, not being depreciated	29,110,087	13,589,136	(44,120)	(24,096,499)	18,558,604
Capital assets being depreciated:					
Infrastructure	113,642,530	13,836,191	-	3,780,014	131,258,735
Buildings	28,163,565	2,192	-	11,803,157	39,968,914
Improvements other than buildings	16,393,815	-	-	6,471,743	22,865,558
Machinery and Equipment	15,219,051	694,126	(501,950)	-	15,411,227
Total capital assets being depreciated	173,418,961	14,532,509	(501,950)	22,054,914	209,504,434
Less accumulated depreciation for:					
Infrastructure	41,860,694	2,469,553	-	-	44,330,247
Buildings	4,773,717	912,743	-	-	5,686,460
Improvements other than buildings	2,757,081	1,200,754	-	-	3,957,835
Machinery and Equipment	7,622,826	1,366,077	(432,200)	-	8,556,703
Total accumulated depreciation	57,014,318	5,949,127	(432,200)	-	62,531,245
Total capital assets being depreciated, net	116,404,643	8,583,382	(69,750)	22,054,914	146,973,189
Governmental activities capital assets, net	\$ 145,514,730	\$ 22,172,518	\$ (113,870)	\$ (2,041,585)	\$ 165,531,793
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 1,639,066	\$ -	\$ -	\$ -	\$ 1,639,066
Construction in progress	5,234,854	8,914,312	-	229,179	14,378,345
Total capital assets, not being depreciated	6,873,920	8,914,312	-	229,179	16,017,411
Capital assets being depreciated:					
Buildings	173,679	-	-	-	173,679
Water system improvements	44,157,302	402,371	-	1,161,494	45,721,167
Sewer system improvements	33,167,255	286,476	-	650,912	34,104,643
Machinery and equipment	2,916,309	86,728	(55,358)	-	2,947,679
Total capital assets being depreciated	80,414,545	775,575	(55,358)	1,812,406	82,947,168
Less accumulated depreciation for:					
Buildings	146,779	4,561	-	-	151,340
Water system improvements	8,744,306	1,265,625	-	-	10,009,931
Sewer system improvements	8,717,688	831,500	-	-	9,549,188
Machinery and equipment	1,650,440	244,978	(55,358)	-	1,840,060
Total accumulated depreciation	19,259,213	2,346,664	(55,358)	-	21,550,519
Total capital assets being depreciated, net	61,155,332	(1,571,089)	-	1,812,406	61,396,649
Business-type activities capital assets, net	\$ 68,029,252	\$ 7,343,223	\$ -	\$ 2,041,585	\$ 77,414,060

The transfer of \$2,041,585 of capital assets from governmental activities to business-type activities has been reported as a capital contribution in the water and sewer enterprise fund; the amount is reclassified to transfers in on the government-wide statement of activities.

Town of Little Elm, Texas
Notes to the Financial Statements

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

Governmental activities:	
General government	\$ 203,592
Public safety	1,113,984
Public works	2,520,155
Culture and recreation	1,619,799
Internal service fund	491,597
	<u>\$ 5,949,127</u>
Business-type activities:	
Solid Waste	\$ 26,031
Water and Sewer	2,320,633
	<u>\$ 2,346,664</u>

Note 6. Transfers

Transfers are used to provide funds for debt service, contributions for capital construction, cost allocations and other operational costs as determined by the Town's annual budget. Transfers between funds during the year were as follows:

Transfer In	Transfer Out	Amount	Purpose
General Fund	Capital Projects Fund	\$ 700,000	Street Maintenance in Sunrise Bay subdivision.
Capital Projects Fund	General Fund	100,000	Cost of the Honor Park CIP project
Capital Projects Fund	Non-major Fund	150,000	Sunset Place Park Fees for 423 trail
Capital Projects Fund	Non-major Fund	28,000	Sunset Place Park Fees for Harts Branch trail
Capital Projects Fund	Non-major Fund	100,000	Funding assistance for Harts Branch
Capital Projects Fund	Non-major Fund	85,000	Funding assistance for McCord Park
Capital Projects Fund	Solid Waste Fund	391,000	Funding assistance for maintenance and clean up of Town land
Capital Projects Fund	PID Capital Projects	1,000,000	Bonding issuance fees from Valencia PID
General Fund	Capital Projects Fund	160,000	Transfer for French Settlement
Water and Sewer Fund	Debt-Service Fund	212,925	Transfer for a portion of debt in 312
General Fund	Non-major Fund	5,448	Transfer for annual court bailiff transfer from court security Fun
General Fund	Solid Waste Fund	175,000	Transfer for admin costs and in kind services
General Fund	Water and Sewer Fund	1,746,150	Transfer for admin costs and in kind services
		<u>\$ 4,853,523</u>	

Note 7. Deferred Inflows of Resources

Governmental funds report deferred inflows of resources in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Funds	Total
Property taxes	\$ 67,815	\$ 19,432	\$ -	\$ -	\$ 87,247
Grants	-	-	899,113	135,945	1,035,058
Court fines	150,557	-	-	55,535	206,092
Other	208,210	-	100,000	-	308,210
Total	<u>\$ 426,582</u>	<u>\$ 19,432</u>	<u>\$ 999,113</u>	<u>\$ 191,480</u>	<u>\$ 1,636,607</u>

Town of Little Elm, Texas
Notes to the Financial Statements

Note 8. Long-Term Debt

The Town of Little Elm issues general obligation bonds, certificates of obligation and revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The Town also issues revenue bonds where the Town pledges income derived from the acquired or constructed assets, or sales tax to pay the debt service.

Changes in Long-term Liabilities

The following is a summary of changes in long-term debt for the year ended September 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One year
Governmental activities:					
General obligation bonds	\$ 25,836,155	\$ -	\$ (2,223,540)	\$ 23,612,615	\$ 2,191,004
Unamortized bond premium	1,336,631	766,813	(118,664)	1,984,780	-
Certificates of obligation	18,780,000	15,460,000	(1,020,000)	33,220,000	2,450,000
Tax Notes	1,205,000	-	(350,000)	855,000	360,000
Capital leases	17,932	-	(17,932)	-	-
Compensated absences	1,890,333	2,124,363	(1,834,110)	2,180,586	902,170
Net pension liability	5,162,328	-	(1,456,206)	3,706,122	-
OPEB	-	289,083	-	289,083	-
	<u>54,228,379</u>	<u>18,640,259</u>	<u>(7,020,452)</u>	<u>65,848,186</u>	<u>5,903,174</u>
Business-type activities:					
General obligation bonds	20,533,843	-	(846,461)	19,687,382	1,458,996
Certificates of obligation	24,155,000	-	(1,710,000)	22,445,000	1,175,000
Unamortized bond premium	1,933,728	-	(151,074)	1,782,654	-
Compensated absences	277,435	262,049	(226,252)	313,232	114,871
Note payable to EDC	800,000	-	(100,000)	700,000	100,000
Net pension liability	649,638	-	(151,795)	497,843	-
OPEB	-	30,135	-	30,135	-
	<u>48,349,644</u>	<u>292,184</u>	<u>(3,185,582)</u>	<u>45,456,246</u>	<u>2,848,867</u>
Total Primary Government	<u>\$ 102,578,023</u>	<u>\$ 18,932,443</u>	<u>\$ (10,206,034)</u>	<u>\$ 111,304,432</u>	<u>\$ 8,752,041</u>
Component Units:					
Notes payable - EDC	\$ 13,199,912	\$ -	\$ (772,911)	\$ 12,427,001	\$ 607,573
Compensated absences	34,233	27,472	(19,183)	42,522	9,124
	<u>\$ 13,234,145</u>	<u>\$ 27,472</u>	<u>\$ (792,094)</u>	<u>\$ 12,469,523</u>	<u>\$ 616,697</u>

Town of Little Elm, Texas
Notes to the Financial Statements

Long-term debt of the Town is comprised of the following individual issues as of September 30, 2018:

Certificates of Obligation	Outstanding		Outstanding	
	Governmental	Due in one year	Business-Type	Due in one year
\$2,500,000 Series 2009A Combination Tax and Revenue Certificates of Obligation due in annual installments of \$75,000 to \$190,000 through August 2029, plus interest at 3.00% to 5.00%	\$ 1,670,000	\$ 120,000		
\$6,000,000 Series 2013 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$150,000 to \$335,000 through August 2028, plus interest at 1.50% to 3.00%	4,815,000	270,000		
\$3,000,000 Series 2013A Combination Tax and Revenue Certificates of Obligation due in annual installments of \$130,000 to \$210,000 through August 2033, plus interest at 1.50% to 3.50%	2,475,000	135,000		
\$9,966,000 Series 2015 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$275,000 to \$630,000 through August 2036, plus interest at 2.00% to 3.50%	8,800,000	275,000		
\$9,966,000 Series 2018 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$440,000 to \$2,000,000 through August 2038, plus interest at 3.00% to 5.00%	15,460,000	1,650,000		
\$6,000,000 Series 2012 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$280,000 to \$495,000 through August 2027, plus interest at 2.00% to 2.38%			\$ 3,945,000	\$ 385,000
\$7,640,000 Series 2016 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$205,000 to \$510,000 through August 2036, plus interest at 2.00% to 5.00%			7,165,000	285,000
\$11,830,000 Series 2017 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$450,000 to \$770,000 through August 2037, plus interest at 3.00% to 5.00%			11,335,000	505,000
	<u>\$ 33,220,000</u>	<u>\$ 2,450,000</u>	<u>\$ 22,445,000</u>	<u>\$ 1,175,000</u>

On August 1, 2018, the Town issued \$15,460,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018. Proceeds from the sale of the certificates will be used for (i) constructing, improving and equipping the Town's aquatics center, (ii) constructing street improvements, including drainage, landscaping, curbs, gutters, sidewalks, signage, traffic signalization and street noise abatement incidental thereto and the acquisition of land and rights-of-way therefor, (iii) acquiring, constructing, improving and equipping municipal park and recreational facilities, including the acquisition of land therefor.

Town of Little Elm, Texas
Notes to the Financial Statements

General Obligation Bonds	Outstanding		Outstanding	
	Governmental	Due in one year	Business-Type	Due in one year
\$10,000,000 Series 2009 Combination Tax and Revenue General Obligation due in annual installments of \$210,000 to \$475,000 through August 2027, plus interest at 4.00% to 4.50%	\$ 6,670,000	\$ 470,000		
\$9,135,000 Series 2010 Refunding and Improvement General Obligation due in annual installments of \$195,000 to \$655,000 through August 2030, plus interest at 2.00% to 5.00%	6,397,615	466,004		
\$2,735,000 Series 2012A General Obligation due in annual installments of \$130,000 to \$210,000 through September 2027, plus interest at 2.09%	1,760,000	180,000		
\$2,520,000 Series 2010 Combination Tax and Revenue Refunding General Obligation due in annual installments of \$185,000 to \$280,000 through August 2030, plus interest at 2.00% to 5.00%			\$ 547,382	\$ 233,996
\$6,985,000 Series 2012 Combination Tax and Revenue Refunding General Obligation due in annual installments of \$300,000 to \$700,000 through August 2024, plus interest at 2.00% to 3.00%	1,715,000	400,000	1,675,000	260,000
\$6,725,000 Series 2016 General Obligation Refunding Bonds due in annual installments of \$375,000 to \$735,000 through August 2027, plus interest at 2.00% to 5.00%	5,510,000	550,000	-	-
\$4,550,000 Series 2014 General Obligation Refunding Bonds due in annual installments of \$235,000 to \$375,000 through August 2029, plus interest at 2.00% to 4.00%	1,560,000	125,000	1,965,000	155,000
\$13,645,000 Series 2017 General Obligation Refunding Bonds due in annual installments of \$10,000 to \$1,090,000 through September 2025, plus interest at			13,550,000	600,000
\$3,040,000 Series 2013 General Obligation Refunding Bonds due in annual installments of \$205,000 to \$525,000 through September 2025, plus interest at 2.00% to 2.50%			1,950,000	210,000
	<u>\$ 23,612,615</u>	<u>\$ 2,191,004</u>	<u>\$ 19,687,382</u>	<u>\$ 1,458,996</u>

Tax Notes	Outstanding		Outstanding	
	Governmental	Due in one year	Business-Type	Due in one year
\$1,990,000 Series 2014 Tax Notes due in annual installments of \$230,000 to \$250,000 through September 2021, plus interest at 1.77%	\$ 855,000	\$ 360,000	\$ -	\$ -
	<u>\$ 855,000</u>	<u>\$ 360,000</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Little Elm, Texas
Notes to the Financial Statements

The annual aggregate maturities for each bond type are as follows:

General Obligation Bonds

Fiscal Year Ending September 30,	Governmental Activities			Business Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 2,191,004	\$ 867,562	\$ 3,058,566	\$ 1,458,996	\$ 691,734	\$ 2,150,730
2020	2,235,396	802,490	3,037,886	1,489,605	639,994	2,129,599
2021	2,331,215	718,284	3,049,499	1,478,781	584,658	2,063,439
2022	2,275,000	630,294	2,905,294	1,395,000	527,856	1,922,856
2023	2,220,000	541,023	2,761,023	1,440,000	473,356	1,913,356
2024-2028	10,150,000	1,567,427	11,717,427	6,220,000	1,616,163	7,836,163
2029-2033	2,210,000	136,819	2,346,819	5,115,000	638,125	5,753,125
2034-2038	-	-	-	1,090,000	34,063	1,124,063
Total	\$ 23,612,615	\$ 5,263,899	\$ 28,876,514	\$ 19,687,382	\$ 5,205,949	\$ 24,893,331

Certificates of Obligation

Fiscal Year Ending September 30,	Governmental Activities			Business Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 2,450,000	\$ 1,139,374	\$ 3,589,374	\$ 1,175,000	\$ 701,858	\$ 1,876,858
2020	2,960,000	1,027,749	3,987,749	1,230,000	664,758	1,894,758
2021	1,410,000	943,449	2,353,449	1,175,000	625,858	1,800,858
2022	1,450,000	897,249	2,347,249	1,230,000	579,408	1,809,408
2023	1,505,000	849,624	2,354,624	1,270,000	540,158	1,810,158
2024-2028	8,330,000	3,409,390	11,739,390	6,545,000	2,076,165	8,621,165
2029-2033	9,180,000	1,798,565	10,978,565	5,395,000	1,215,628	6,610,628
2034-2038	5,935,000	450,320	6,385,320	4,425,000	336,826	4,761,826
Total	\$ 33,220,000	\$ 10,515,720	\$ 43,735,720	\$ 22,445,000	\$ 6,740,659	\$ 29,185,659

Tax Notes

Fiscal Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 360,000	\$ 15,134	\$ 375,134
2020	245,000	8,762	253,762
2021	250,000	4,425	254,425
Total	\$ 855,000	\$ 28,321	\$ 883,321

Town of Little Elm, Texas
Notes to the Financial Statements

Compensated Absences

Substantially all vacation and sick leave are paid by the General Fund.

Discretely presented component units – Economic Development Corporation

Notes payable of the Little Elm Economic Development Corporation as of September 30, 2018 are as follows:

Payee	Description	Balance 09/30/18
Southside Bank	\$7,780,815, payable to bank, made October 2011, payable in semi-annual installments of \$272,111 through September 15, 2031, including interest at 3.5%.	\$ 5,643,386
Southside Bank	\$2,000,000, payable to bank, made May 2013, payable in semi-annual installments of \$72,366 through September 15, 2031, including interest at 3.3%	1,530,796
Southside Bank	\$2,543,750, payable to bank, made January 2015, payable in semi-annual installments of \$87,965 through November 15, 2034, including interest at 3.4%	2,204,819
Government Capital Corporation	\$3,048,000 payable to bank, made July 13, 2017 payable in quarterly installments of \$34,138 through October 13, 2018, and then \$51,389 through to final payment January 13, 2043, including interest at 4.48%	<u>3,048,000</u>
		<u><u>\$ 12,427,001</u></u>

During 2017, EDC entered into a \$3,048,000 note payable with the Government Capital Corporation. Proceeds from the note are being used to fund construction of the facility described in the direct-financing lease portion of Note 4.

Annual debt service requirements for the Economic Development Corporation loans are as follows:

Year	Principal	Interest	Total
2019	\$ 607,573	\$ 478,901	\$ 1,086,474
2020	630,737	455,467	1,086,204
2021	655,081	431,123	1,086,204
2022	680,371	405,833	1,086,204
2023	706,644	379,560	1,086,204
2024-2028	3,964,469	1,466,551	5,431,020
2029-2033	3,342,475	679,117	4,021,592
2034-2038	1,004,898	286,795	1,291,693
2039-2043	834,753	91,485	926,238
Total	<u>\$ 12,427,001</u>	<u>\$ 4,674,832</u>	<u>\$ 17,101,833</u>

Town of Little Elm, Texas

Notes to the Financial Statements

On December 15, 2015, the Town Council approved an Interlocal Chapter 380 Economic Development Program and Performance Agreement between the Town of Little Elm and the Little Elm EDC for payments related to the Utility Acquisition Agreement with Mustang Special Utility District (SUD). Mustang SUD agreed to purchase the system and assume the contracts for a cash consideration of \$1,000,000 which is to be paid to the Town in ten equal yearly payments of \$100,000 with the first installment payment to the Town to occur on July 1, 2016. The Town also covenants and agrees to pay to the Little Elm EDC the ten equal yearly payments. Accordingly a note payable / receivable has been recorded between the Town and Little Elm EDC. The remaining balance as of September 30, 2018 was \$700,000.

Note 9. Pension Plan

Plan Description

The Town participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' 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 (CFAR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

At the date the plan began, the Town granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the Town can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and Town matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Town of Little Elm, Texas

Notes to the Financial Statements

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service. A member is vested after 5 years. The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	39
Inactive employees entitled to but not yet receiving benefits	124
Active employees	<u>232</u>
	<u><u>395</u></u>

Contributions

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

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 13.61% and 13.54% in calendar years 2017 and 2018, respectively. The Town's contributions to TMRS for the year ended September 30, 2018 were \$2,201,774, and were equal to the required contributions.

The Town's Net Pension Liability (NPL) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Town of Little Elm, Texas
Notes to the Financial Statements

Actuarial assumptions used in the December 31, 2017, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

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

Discount Rate

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

Town of Little Elm, Texas
Notes to the Financial Statements

Allocations

The Town's net pension liability, pension expense, and deferred outflows of resources related to TMRS have been allocated between governmental activities and business-type activities using a contribution-based method.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 28,824,927	\$ 23,012,963	\$ 5,811,964
Changes for the year:			
Service Cost	2,626,348	-	2,626,348
Interest	2,023,022	-	2,023,022
Change of benefit terms	-	-	-
Difference between expected and actual experience	(90,555)	-	(90,555)
Changes of assumptions	-	-	-
Contributions - employer	-	1,968,224	(1,968,224)
Contributions - employee	-	1,021,378	(1,021,378)
Net investment income	-	3,194,579	(3,194,579)
Benefit payments, including refunds of employee contributions	(334,803)	(334,803)	-
Administrative expense	-	(16,529)	16,529
Other changes	-	(838)	838
Net Changes	<u>4,224,012</u>	<u>5,832,011</u>	<u>(1,607,999)</u>
Balance at 12/31/2017	<u>\$ 33,048,939</u>	<u>\$ 28,844,974</u>	<u>\$ 4,203,965</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	\$ 10,231,018	\$ 4,203,965	\$ (620,592)

Town of Little Elm, Texas
Notes to the Financial Statements

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 at www.tmrs.com.

The general fund has typically been used to liquidate pension and OPEB liabilities related to governmental activities.

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

For the year ended September 30, 2018, the Town recognized pension expense of \$2,197,559. At September 30, 2018, the Town 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
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 493,522	\$ 75,462
Changes in actuarial assumptions	47,522	-
Difference between projected and actual investment earnings	-	798,285
Contributions subsequent to the measurement date	<u>1,707,061</u>	<u>-</u>
Total	<u>\$ 2,248,105</u>	<u>\$ 873,747</u>

The \$1,707,061 reported as deferred outflows of resources related to pensions result from contributions subsequent to the measurement date and will reduce the net pension liability during the fiscal year ended September 30, 2019. The other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended Sept. 30:	Net deferred outflows (inflows) of resources
<u> </u>	<u> </u>
2019	\$ 105,577
2020	67,335
2021	(213,811)
2022	(279,175)
2023	(12,629)
Thereafter	-
	<u>\$ (332,703)</u>

Town of Little Elm, Texas

Notes to the Financial Statements

Note 10. Other Postemployment Benefits Plan (OPEB)

A. Plan Description

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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 Town has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for Town reporting.

B. Benefits Provided

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). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	31
Inactive employees entitled to but not yet receiving benefits	30
Active employees	<u>232</u>
	<u>293</u>

C. Contributions

The member town 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.

Contributions are made monthly based on the covered payroll of employee members of the participating member town. The contractually required contribution rate is determined annually for each town. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the town. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The retiree portion of contribution rates to the SDBF for the Town was 0.01% in both calendar years 2017 and 2018. The Town's contributions to the SDBF for the year ended September 30, 2018 were \$2,885, and were equal to the required contributions.

Town of Little Elm, Texas

Notes to the Financial Statements

D. Total OPEB Liability

The Town's Total OPEB Liability (TOL) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

E. Actuarial Assumptions

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.31%
Retiree's share of benefit-related costs	\$0

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. Mortality rates for disabled retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal Actuarial Cost Method.

The discount rate used to measure the Total OPEB Liability was 3.31% and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

F. Changes in Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2016	\$ 255,737
Changes for the year:	
Service Cost	24,777
Interest on Total OPEB Liability	10,108
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions or other inputs	30,053
Benefit payments	(1,457)
Administrative expense	-
Other changes	-
Net changes	<u>63,481</u>
Balance at 12/31/17	<u>\$ 319,218</u>

Town of Little Elm, Texas
Notes to the Financial Statements

G. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Town, calculated using the discount rate of 3.31%, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.31%) or 1 percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	<u>\$ 394,341</u>	<u>\$ 319,218</u>	<u>\$ 259,613</u>

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Town recognized pension expense of \$46,510. At September 30, 2018, the Town 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
Changes in assumptions and other inputs	\$ 26,225	\$ -
Contributions subsequent to the measurement date	<u>2,522</u>	<u>-</u>
Total	<u>\$ 28,747</u>	<u>\$ -</u>

The \$2,522 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will reduce the Total OPEB liability during the year ending September 30, 2019. The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended Sept. 30:	Net deferred outflows (inflows) of resources
2019	\$ 3,828
2020	3,828
2021	3,828
2022	3,828
2023	3,828
Thereafter	<u>7,085</u>
Total	<u>\$ 26,225</u>

Town of Little Elm, Texas

Notes to the Financial Statements

Note 11. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Town is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of 1,115 individual governmental units located within Texas. The Town pays an annual premium to the funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$1,000,000 per occurrence with a \$2,000,000 annual aggregate. There is a deductible of \$5,000 due from the Town per claim for personnel liability claims and a \$2,500 deductible for general liability.

There were no reductions in insurance coverage and the Town had not been declined coverage for any exposures or limits of liability and/or scheduled covered amounts from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

Note 12. Net Position / Fund Balance

In the government-wide financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

A. Restricted Net Position

Net position is reported in the government-wide statement of net position consisted of the following as of September 30, 2018:

	Governmental Activities	Business-type Activities	Total Primary Government	Discretely Presented Component Units
Restricted for construction	\$ 7,397,801	\$ -	\$ 7,397,801	\$ -
Restricted by enabling legislation	2,945,111	2,766,515	5,711,626	4,620,086
Restricted for streetscape	661,368	-	661,368	-
Restricted for debt service	840,242	-	840,242	169,532
Restricted for other:				
Grant requirements	289,281	-	289,281	-
Donor stipulations	163,629	-	163,629	-
Parks	22,196	-	22,196	-
Forfeitures	55,127	-	55,127	-
Total restricted for other	530,233	-	530,233	-
	<u>\$ 12,374,755</u>	<u>\$ 2,766,515</u>	<u>\$ 15,141,270</u>	<u>\$ 4,789,618</u>

Town of Little Elm, Texas
Notes to the Financial Statements

B. Fund Balance

The composition of the governmental fund balances at September 30, 2018 is as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	PID Capital Projects Project	Non major Governmental Funds	Total Governmental Funds
Non-spendable:						
Inventory	\$ 55,632	\$ -	\$ -	\$ -	\$ -	\$ 55,632
Prepays	8,922	-	-	-	-	8,922
Total nonspendable	64,554	-	-	-	-	64,554
Restricted for:						
Debt service	-	1,153,205	-	-	-	1,153,205
Street maintenance	-	-	-	-	1,175,641	1,175,641
Police	-	-	-	-	31,416	31,416
Fire	-	-	-	-	18,817	18,817
Parks and Rec	-	-	-	-	150,487	150,487
Stormwater drainage	-	-	-	-	692,199	692,199
Court	-	-	-	-	129,724	129,724
Red Light camera	-	-	-	-	173,062	173,062
Library	-	-	-	-	14,641	14,641
Animal Control	-	-	-	-	4,807	4,807
Forfeiture	-	-	-	-	55,127	55,127
Public, Education, Govt. Access	-	-	-	-	203,648	203,648
Streetscape	-	-	661,368	-	-	661,368
Economic Development	-	-	-	-	645,026	645,026
Child Safety	-	-	-	-	125,214	125,214
Capital projects	-	-	18,263,433	5,179,526	-	23,442,959
Total restricted	-	1,153,205	18,924,801	5,179,526	3,419,809	28,677,341
Committed to:						
Street development	-	-	751,574	-	-	751,574
Total committed	-	-	751,574	-	-	751,574
Unassigned	21,148,258	-	-	-	(142,458)	21,005,800
	\$ 21,212,812	\$ 1,153,205	\$ 19,676,375	\$ 5,179,526	\$ 3,277,351	\$ 50,499,269

Note 13. Commitments and Contingencies

In March 2003, the Town entered into a thirty-year contract with the North Texas Municipal Water District (NTMWD) for the purchase of treated water. Under the terms of this contract, the Town is obligated to make a minimum annual payment (adjusted annually) in return for a minimum volume of gallons of water per year. During the year ended September 30, 2018, the cost of water purchased under this contract was \$4,243,350.

Town of Little Elm, Texas

Notes to the Financial Statements

The Town also entered into a water transmission facilities contract in March 2003 with the NTMWD. Under the terms of this contract, the NTMWD is to own, operate and maintain water transmission facilities located near the eastern border of the Town. NTMWD issued its Water Transmission Facilities Contract Revenue Bonds, Series 2003 (Town of Little Elm Project), in the amount of \$5,390,000 for the purpose of acquiring and constructing the transmission facility. The obligation of the Town was to make payments to NTMWD under contract terms until all of the bonds are paid and retired and is no longer outstanding. During the year ended September 30, 2013, the NTMWD issued its Water Transmission Facilities Contract Revenue Refunding Bonds, Series 2013 (Town of Little Elm) in the amount of \$3,555,000 for the purpose of defeasing the Series 2003 obligations. During the year ended September 30, 2018, the payments made under this contract were \$361,729.

At September 30, 2018 and subsequent to year end, the Town is committed to numerous contracts for capital improvements totaling approximately \$8,870,000.

Note 14. Little Elm Tax Increment Reinvestment Zones and Public Improvement District

The Town Council created and participates in a total of four Tax Increment Reinvestment Zones ("TIRZ") (#3, #4, #5, and #6). The two original TIRZ created in 2008 referred to as TIRZ #1 and TIRZ #2 were terminated in November 2013. Subsequent to the creation of the two TIRZ zones, the Council on February 3, 2009 authorized and established the creation of the Little Elm Redevelopment Authority ("LERA"). The LERA was dissolved in February 2014. Upon the termination of TIRZ #1 in 2013, the Town created TIRZ #3 for the "Lakefront District" which consists of approximately 847 acres and has a base taxable assessed value of \$46,554,879.

The Town Council created TIRZ #4 in December 2013 for the Valencia on the Lake multi-phase residential development of approximately 447.942 acres. The Town also created the Valencia Public Improvement District ("PID") in September 2013 to finance certain public infrastructure improvements. The PID and the TIRZ boundaries are contiguous as the goal of the TIRZ is to assist with the development. The Town issued two series of special assessment revenue bonds (the "PID Bonds") in the amounts of \$12,240,000 and \$4,000,000 in February 2014 that are secured solely from assessment revenues generated within the Valencia PID. The bonds funded major improvement projects to include certain roadway, water, wastewater and drainage improvements. On November 6, 2018 the Town issued three series of bonds for the Valencia on the Lake PID. The first series of revenue bonds refunded the 2014 Phase #1 Bonds, refinanced the Phase #1 reimbursement agreement portion of the 2014 bonds and restructured the debt service requirements by passage of Ordinance No.1445. The second series of revenue bonds were identified as the Improvement Area #2 Refunding and Improvement Bonds and were issued to refund a portion of the 2014 bonds used to finance improvements related to Improvement Area #2, refinance the pro rata portion of the Phase #2 local improvements and financed additional improvements relating in Improvement Area #2 thru Ordinance No. 1446. The Major Improvement Area Refunding Bonds were the third series of bonds issued in FY2018 thru Ordinance No. 1447. They were to refund the pro-rata portion of the 2014 Major Improvement Bonds related to Phases #2B, #3B, and #4.

The Town Council created TIRZ #5 in December 2014 with a base value of Real Property of \$6,728,553. The TIRZ #5 zone has removed sections and added additional property to create the existing 943.5 acre zone. The Hillstone Pointe PID No. 2 was created in June 2015. It is located at the northern section of TIRZ #5 and its boundaries are not contiguous. TIRZ #5 and Hillstone Pointe PID No. 2 are located near the 380 Corridor within the newly annexed area on the northern boundary of the Town of Little Elm. The Town issued \$6,000,000 in special assessment revenue bonds (the "PID Bonds") for Phases #1-1a thru approval of Ordinance No. 1422 on October 17, 2017. The Bonds are secured solely from assessment revenues generated within the Hillstone Pointe PID No. 2. The Bonds funded Phase 1 and Phase 1A improvements which included certain roadway, water system, storm drainage, sanitary sewer, screening and landscaping and other soft and miscellaneous improvements. The Town intends to issue the next set of Bonds for the Hillstone Pointe PID No. 2 Phases 2 and 3 thru Ordinance No. 1471.

Town of Little Elm, Texas

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The Town's third PID was created by the Town on October 2016 identified as the Rudman Tract Public Improvement District to finance the costs of certain public improvements for the benefit of property in the PID. TIRZ #6 was created in November 2016 to be contiguous with the Rudman Tract to help the area develop. The area encompasses 146.8 acres. The Town approved reimbursement obligations to finance the public improvements provided for the benefit of the property in the PID. Phase #1 Reimbursement Agreement of \$7,300,000 and Phase #2 Major Improvements Reimbursement Agreement of \$2,075,000 are secured by special assessments. The Town consented to the assignment of the reimbursement amounts between the OPLE Prairie Oaks Development, Inc. and the Public Finance Authority ("PFA") in May 2017. Bonds were issued by the Wisconsin PFA for the development in May 2017.

The Town on December 20, 2016 created the fourth PID for the Town of Little Elm. This PID is located at the Town's northern border next to Highway 380 and will be identified as Lakeside Estates PID No. 2. A TIRZ was not approved to assist with the development of this project. The Town authorized the issuance and sale of special assessment revenue bonds, Series 2017 in December 2017 for \$4,700,000. The bonds funded improvements which included certain roadway, water distribution system, storm drainage, sanitary sewer, screening and other PID Bond issuance costs.

The TIRZ and PID's in respect to their duration and the projects to be undertaken and other terms and conditions are set forth in the respective ordinances creating such zones and the public improvement districts. Although current plans provide that project costs for the zones will be paid or reimbursed from tax increments as collected, the Town may determine at a future date to issue bonds or other obligations secured by or payable in whole or in part from Tax Increment Revenues. The owners of the PID Bonds do not have the right to demand payment from any funds of the Town other than the pledged revenues, consisting primarily of assessments levied and collected against the property within the specific PID, and the Town has no obligation to pay the PID Bonds from any other source.

Note 15. Tax Abatements and Economic Incentives

The Town enters into economic development agreements designed to promote development, stimulate commercial activity, enhance the property tax base, and increase the economic vitality. These programs rebate property taxes and sales tax. The Town's economic development agreements are authorized under the Texas Local Government Code Chapter 311 (Tax Increment Financing Act) and Chapter 380 (Economic Development Programs). Recipients may be eligible to receive economic assistance based upon employment impact, economic or community impact of the project requesting assistance. Recipients receiving assistance generally commit to building or remodeling real property and related infrastructure, expanding operations, renewing facility leases or bringing targeted development to the Town. Agreements generally contain recapture provisions which may require repayment or termination if recipients do not meet the required provisions of the economic incentives.

The Town has two categories of economic development agreements:

A. General Economic Development

The Town enters into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. Agreements may rebate a flat amount or a percentage of property taxes or sales tax received by the Town. For fiscal year 2018, the Town rebated \$329,4670 in sales taxes and \$290,432 of property taxes.

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B. Tax Increment Financing

Tax Increment Financing (TIF) is a tool to help finance public improvements and development projects within a defined area. A municipality makes an area eligible for TIF by designating it a Tax Increment Reinvestment Zone (TIRZ). Within the designated zone all of the incremental tax revenue growth flows to an established tax increment fund to help pay for public improvements within the zone. The Town has adopted four Tax Increment Reinvestment Zones (TIRZ) in accordance with the provisions of the Tax Increment Financing Act, V.T.C.A., Tax Code, Chapter 311. The four active Tax increment reinvestment zones include TIRZ #3, #4, #5 and #6. The purpose of TIRZ #3 is to help pay for project costs associated with the development of the Town's Lakefront District. The Zone's projected costs are primarily related to park and park improvements, streets, a conference center, utilities, a recreation center, landscaping, trails, a plaza and lighting. TIRZ #4, #5 and #6 were created to facilitate the development of the currently vacant land with retail and single family developments while creating a unique cohesive development that builds on the high development standards already established within the Town. Specific project costs may include but is not limited to roads, water, sewer and storm water management. In fiscal year 2018, the Town made \$547,937 in payments to the TIRZ funds. Denton County agreed to participate in TIRZ 3 for a period of five years and contributed \$39,812 in fiscal year 2018.

Note 16. Subsequent Events

On December 1, 2018, the Town issued \$4,688,000 Special Assessment Revenue Bonds, Series 2018 (Hillstone Pointe Public Improvement District No. 2 Phases #2-3 Project). Proceeds from the sale of the bonds will be used for the purpose of paying a portion of the costs of the Phases #2-3 Improvements.

Note 17. Cumulative Effective of Change in Accounting Principle

As a result of the implementation of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", an adjustment has been made to record the Town's total OPEB liability as of October 1, 2017. As a result, beginning net position of the governmental activities has been decreased by \$230,605 and the beginning net position of the Enterprise Fund has been decreased by \$24,038.

Financial Advisory Services
Provided By:

