ADDENDUM

TO

OFFICIAL STATEMENT
Dated August 1, 2019

Relating to

$8,605,000
CITY OF LUCAS, TEXAS
(A political subdivision of the State of Texas located in Collin County, Texas)
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019

PLEASE BE ADVISED that the referenced Official Statement, dated August 1, 2019, relating to the captioned obligations (the "Certificates") is hereby amended in the following manner as a result of an error on page 2, the maturity schedule.

For maturity 2031 the Initial Yield has been corrected as follows:

Stated Maturity 2/1	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix (1)	Stated Maturity 2/1	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix (1)
2020	$ 140,000	5.000%	1.170%	DZ3	2030	$ 460,000	2.500%	2.050% (2)	EK5
2021	225,000	5.000%	1.210%	EA7	2031	475,000	2.500%	2.150% (2)	EL3
2022	310,000	5.000%	1.250%	EB5	2032	485,000	2.500%	2.200% (2)	EM1
2023	340,000	5.000%	1.280%	EC3	2033	495,000	2.500%	2.300% (2)	EN9
2024	355,000	5.000%	1.340%	ED1	2034	510,000	2.500%	2.350% (2)	EP4
2025	375,000	5.000%	1.400%	EE9	2035	520,000	2.500%	2.400% (2)	EQ2
2026	390,000	5.000%	1.470%	EF6	2036	535,000	2.500%	2.450% (2)	ER0
2027	415,000	5.000%	1.570%	EG4	2037	550,000	2.550%	2.500% (2)	ES8
2028	435,000	5.000%	1.650%	EH2	2038	565,000	2.625%	2.520% (2)	ET6
2029	450,000	2.000%	2.000%	EJ8	2039	575,000	2.625%	2.550% (2)	EU3

August 20, 2019

Stickers will be mailed out for the hard copies

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

OFFICIAL STATEMENT
August 1, 2019

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

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

$8,605,000
CITY OF LUCAS, TEXAS
(A political subdivision of the State of Texas located in Collin County Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

Dated Date: August 1, 2019 **Due: February 1, as shown on inside cover**

The $8,605,000 City of Lucas, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City of Lucas, Texas (the "City" or the "Issuer") on August 1, 2019, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

Interest on the Certificates will accrue from August 1, 2019 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2020, until the earlier of stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing bridge improvement and street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system; (3) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (4) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" and "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about August 28, 2019.

$8,605,000
CITY OF LUCAS, TEXAS
(A political subdivision of the State of Texas located in Collin County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

MATURITY SCHEDULE
(Due February 1)

CUSIP Prefix No. 549380[1]

Stated Maturity 2/1	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix [1]	Stated Maturity 2/1	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix [1]
2020	$ 140,000	5.000%	1.170%	DZ3	2030	$ 460,000	2.500%	2.050%[2]	EK5
2021	225,000	5.000%	1.210%	EA7	2031	475,000	2.500%	2.150%[2]	EL3
2022	310,000	5.000%	1.250%	EB5	2032	485,000	2.500%	2.200%[2]	EM1
2023	340,000	5.000%	1.280%	EC3	2033	495,000	2.500%	2.300%[2]	EN9
2024	355,000	5.000%	1.340%	ED1	2034	510,000	2.500%	2.350%[2]	EP4
2025	375,000	5.000%	1.400%	EE9	2035	520,000	2.500%	2.400%[2]	EQ2
2026	390,000	5.000%	1.470%	EF6	2036	535,000	2.500%	2.450%[2]	ER0
2027	415,000	5.000%	1.570%	EG4	2037	550,000	2.550%	2.500%[2]	ES8
2028	435,000	5.000%	1.650%	EH2	2038	565,000	2.625%	2.520%[2]	ET6
2029	450,000	2.000%	2.000%	EJ8	2039	575,000	2.625%	2.550%[2]	EU3

(Interest to accrue from Dated Date)

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

[1] CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.
[2] Yield calculated is based on the assumption that the Certificates denoted and sold at premium will be redeemed on February 1, 2028, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

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CITY OF LUCAS TEXAS

665 Country Club
Lucas, Texas 75002
Telephone: (972) 727-8999

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Jim Olk Mayor	8	2021	Building Official
Kathleen Peele Mayor Pro-Tem	13	2022	Senior Vice President Program Management
Wayne Millsap Councilmember	12	2020	Managing Partner
Tim Baney Councilmember	4	2020	Business Owner
Steve Duke Councilmember	7	2021	Automotive Restoration
Philip Lawrence Councilmember	9	2021	Loss Prevention and Security Manager
Debbie Fisher Councilmember	15	2022	Retired Educator

ADMINISTRATION

Name	Position	Length of Service (Years)
Joni Clarke	City Manager	5 years
Liz Exum	Director of Finance	10 years
Stacy Henderson	City Secretary	4 years

CONSULTANTS AND ADVISORS

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

Certified Public Accountants .... Brookwatson & Co.
Houston, Texas

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

For Additional Information Please Contact:

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Lucas, Texas 75002
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Mr. Andrew T. Friedman
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afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

TABLE OF CONTENTS

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Lucas, Texas (the "City" or "Issuer") is near SH 190 to the south and conveniently located by the City of Allen, City of Plano and the City of Richardson, Texas. The City's Home Rule Charter was adopted May 15, 2008. The City operates under a Council-Manager form of government. The City Council is the legislative body of the City government, and it is composed of seven members, including the Mayor and six council members elected at-large and is responsible for enacting local legislation, adopting the annual budget and serving as policy makers. The City Council appoints a City manager who serves as the chief executive officer of the City and is responsible for the City's proper administration and daily operations including the implementation of the policies adopted by the City Council. (See "APPENDIX B - General Information Regarding the City of Lucas and Collin County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City, on August 1, 2019 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
Security	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed $1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
Redemption Provisions of the Certificates	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS" and will not be included in calculating the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations" herein.)

Use of Certificate Proceeds	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing bridge improvement and street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system; (3) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (4) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Rating	S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA+" to the Certificates. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
Payment Record	The City has never defaulted on the payment of its general obligation or revenue indebtedness.
Future Debt Issues	The Issuer does not anticipate the issuance of any additional ad valorem tax debt in the next 12 months, except potentially issuing refunding bonds for debt service savings.
Delivery	When issued, anticipated on or about August 28, 2019.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.

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OFFICIAL STATEMENT
relating to

$8,605,000
CITY OF LUCAS, TEXAS
(A political subdivision of the State of Texas located in Collin County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Lucas, Texas (the "City" or the "Issuer") of its $8,605,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (the "Certificates") identified on the cover page.

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

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

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

THE CERTIFICATES

General Description of the Certificates

The Certificates are dated August 1, 2019 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of $5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2020, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Austin, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") on August 1, 2019, and the City's Home Rule Charter.

Security for Payment

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

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

Redemption Provisions of the Certificates

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

Notice of Redemption

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

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

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

Selection of Certificates to be Redeemed

The Certificates of a denomination larger than $5,000 may be redeemed in part (in increments of $5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular

Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice or such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing bridge improvement and street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system; (3) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (4) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects.

Sources and Uses

Sources	
Par Amount of the Certificates	$ 8,605,000.00
Accrued Interest on the Certificates	21,690.00
Reoffering Premium	581,679.85
Total Sources of Funds	$ 9,208,369.85
Uses	
Project Fund Deposit	$ 9,000,000
Purchaser's Discount	81,266.62
Certificate Fund Deposit	21,690.00
Costs of Issuance	105,413.23
Total Uses	$ 9,208,369.85

Payment Record

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

Amendments

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

Defeasance

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

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

Default and Remedies

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

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

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

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

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

Record Date

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

Special Record Date for Interest Payment

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

Future Registration

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

Limitation on Transfer of Certificates

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

Replacement Certificates

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

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

INVESTMENT POLICIES

The Issuer invests its investable funds in investments authorized by Texas law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the City Council. Both State law and the Issuer's investment policies are subject to change.

Legal Investments

Under State law, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Issuer deposits, or (ii) certificates of deposit where (a) the funds are invested by the Issuer through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Issuer as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Issuer, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Issuer appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the Issuer with respect to the certificates of deposit issued for the account of the Issuer; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Issuer with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset- backed securities; (15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

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

Investment Policies

Under State law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Issuer funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, requirements 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 Texas Public Funds Investment Act. All Issuer funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

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

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

As of April 30, 2019, the City held investments as follows:

Type of Security	Market Value	Percentage of Total
Cash, Money Markets, and CD's	$ 6,694,514.38	24.25%
Investment Pools	20,916,433.35	75.75%
	$ 27,610,947.73	100.00%

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

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(1) Unaudited.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Collin Appraisal District (the "Appraisal District") is responsible for appraising property within the City generally as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Collin Appraisal Review Board (the "Appraisal Review Board") which is appointed by the Appraisal District.

Valuation of Property for Taxation

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. Oil and gas reserves are assessed on the basis of pricing information contained in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board for the Appraisal District, the members of which are appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the City in establishing its tax roll and tax rate.

The Appraisal District is required to review the value of property within its jurisdiction at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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.

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

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

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

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal.

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

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in- transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The City took official action before April 1, 1990 to tax freeport property. On October 23, 2007 the City adopted an ordinance that continued the taxation of all goods-in-transit for the tax year 2008 and beyond. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action after October 1 of the prior year but before January 1 of the first tax year in which the governing body proposes to tax goods-in-transit in the 2012 tax year and beyond. **The City has taken official action to tax goods-in-transit.**

Residential Homestead Exemptions

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

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is (1) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (2) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse, 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. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

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

1. An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. **The Issuer has elected to grant this additional exemption up to a maximum of $50,000.**

2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000. **The Issuer has elected to grant this additional exemption in the amount of 8% of the market value of residence homesteads.**

After the exemption described in (1) above is authorized, such exemption may be repealed or decreased or increased in amount (a) by the governing body of the political subdivision or (b) 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. An eligible disabled person who is 65 or older may not receive both a disabled and an elderly residence homestead exemption but may choose either.

The surviving spouse of an individual who qualifies for the exemption listed in (1) above 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 the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

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

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

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

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

Tax Abatement

The Issuer may designate areas within the City as a reinvestment zone. Thereafter, the Issuer may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity with taxing authority over the property will follow in granting tax abatement to owners of property. The tax abatement agreement may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the Issuer, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. The terms of all tax abatement agreements must be substantially the same.

Tax Increment Reinvestment (Financing) Zones

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

Economic Development Programs of Grants and Loans

The City is also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into various 380 agreements with businesses in the City. These agreements involve rebates of future ad valorem taxes and/or sales taxes and should not have a significant impact on current tax in future years. Once the terms of the 380 agreements expire, the tax base of the City will be increased to include the new businesses of the City.

Issuer and Taxpayer Remedies

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

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

The Financial Institutions Act of 1989

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

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

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

Levy and Collection of Taxes

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the taxing unit, the rate of taxation is set by the Issuer based upon the valuation of property within the City as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the Issuer. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. Certain taxpayers, including the disabled, persons 65 years or older, disabled veterans, and first responders who qualified for certain tax exemptions are permitted by State law to pay taxes on homesteads in four installments with the first due before February 1 of each year and the final installment due before August 1. The Property Tax Code also makes provision, on a local option basis, for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. **The Issuer does not allow split payments or discounts.**

Issuer's Rights in the Event of Tax Delinquencies

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

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

TAX RATE LIMITATIONS

General

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

The Property Tax Code

The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"effective tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"rollback tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.08, plus the debt service tax rate.

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per $100 of taxable value.

"unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

“voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate”.

The City’s tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

For the 2019 tax year, the procedures in this paragraph apply. After the assessor submits the appraisal roll, a designated officer or employee of the City is required to calculate its “rollback tax rate” and “effective tax rate”. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, and may not adopt a tax rate that exceeds the lower of its “rollback tax rate” or “effective tax rate” (as such terms are defined below) until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. The Property Tax Code provides that if the adopted tax rate exceeds the rollback tax rate, qualified voters of the city, by petition, may require that an election be held to determine whether or not to reduce the adopted tax rate to the rollback tax rate. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-effective tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

Effective January 1, 2020, the terms rollback tax rate and effective tax rate will be replaced, respectively, with the terms “voter-approval tax rate” and “no-new-revenue tax rate”. Beginning with the 2020 tax year, the procedures in this paragraph and the following paragraphs apply. A city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its “de minimis rate”, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city’s adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city’s voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its “voter-approval tax rate” using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city’s total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City’s ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City’s tax-supported debt obligations, including the Certificates.

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.

TAX MATTERS

Tax Exemption

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

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

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. 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 Issuer 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 municipal obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the Issuer may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

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

Ancillary Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life 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 ("FASIT"), 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. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Certificates

The initial public offering price to be paid for certain Certificates may be less than the amount payable on such Certificates at maturity (the "Discount Certificates"). An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificates. A portion of such original issue discount, allocable to the holding period of a Discount Certificate by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Certificates. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable 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 (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

Tax Accounting Treatment of Premium Certificates

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

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

Qualified Tax-Exempt Obligations

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

The Issuer will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in Table 1 of the Official Statement and in Tables 1-13 of APPENDIX A to this Official Statement and in APPENDIX D. The Issuer will update and provide this information within six months after the end of each fiscal year in or after 2019. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

The Issuer may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not available by that time, the Issuer will provide by the required time unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Issuer's annual financial statements 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, it must provide updated information by the end of March in each year following end of its fiscal year, unless the Issuer changes its fiscal year. If the Issuer changes its fiscal year, it will notify the MSRB through EMMA of the change.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances;(10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes;(12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material (15) incurrence of a Financial Obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, 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 any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. Neither the Certificates nor the Ordinance make any provision for debt service reserve funds, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

Availability of Information

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

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX RATE LIMITATIONS

-General", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

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

Rating

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

Authenticity of Financial Information

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

Financial Advisor

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

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of Raymond James & Associates, Inc. (previously defined as the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a reoffering premium of $581,679.85, less a Purchaser's discount of $81,266.62, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

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

Information from External Sources

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

Concluding Statement

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

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

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

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

CITY OF LUCAS, TEXAS

/s/ Jim Olk

Mayor
City of Lucas, Texas

ATTEST:

/s/ Stacy Henderson

City Secretary
City of Lucas, Texas

APPENDIX A

FINANCIAL INFORMATION RELATING TO THE CITY OF LUCAS, TEXAS

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION **TABLE 1**

2019 Market Value of Taxable Property (100% of Market Value)	$	1,661,148,272
Less Exemptions:		
Optional Over-65 or Disabled Homestead		22,833,098
Disabled and Deceased Veterans		6,385,207
Open-Space Land and Timberland		113,533,671
Homestead Exemptions		20,114,645
Loss to 10% HO Cap		95,006,340
TOTAL EXEMPTIONS		257,872,961
2019 Assessed Value of Taxable Property	$	1,403,275,311 *

* *Includes freeze value of $167,398,058.*

Source: Collin Central Appraisal District.

GENERAL OBLIGATION BONDED DEBT

(as of July 1, 2019)

General Obligation Debt Principal Outstanding		
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007	$	1,765,000
General Obligation Refunding Bonds, Series 2007		1,025,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011		4,035,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015		1,510,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017		8,105,000
The Certificates		8,605,000
Total Gross General Obligation Debt	$	25,045,000
Less: Self Supporting Debt		
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007 (56.37% Utility Fund)	$	995,000
General Obligation Refunding Bonds, Series 2007 (31.22% Utility Fund)		320,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011 (39.28% Utility Fund)		1,585,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 (33.31% Utility Fund)		2,700,000
The Certificates (16.15% Utility Fund)		1,390,000
Total Self-Supporting Debt	$	6,990,000
Total Net General Obligation Debt Outstanding	$	18,055,000
2019 Preliminary Net Assessed Valuation	$	1,403,275,311
Ratio of Total Gross General Obligation Debt Principal to 2019 Preliminary Net Taxable Assessed Valuation		1.78%
Ratio of Net General Obligation Debt to 2019 Preliminary Net Taxable Assessed Valuation		1.29%

Population: 1990 - 2,205; 2000 - 2,890; 2010 - 5,166; est. 2019 - 8,080
Per Capita Preliminary Net Taxable Assessed Valuation - $173,672.69
Per Capita Gross General Obligation Debt Principal - $3,099.63
Per Capita Net General Obligation Debt Principal - $2,234.53

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

(As of September 30, 2018)

Note Payable

The City entered into a finance contract for the purchase of an ambulance and equipment on November 7, 2013. The initial principal balance of the lease was $347,712 with an interest rate of 2.9%, payable in annual installments of $62,688 over 6 years. The asset under lease has a book value of $131,043 as of year end.

Years Ending 9/30	Principal	Interest
2019	60,930	1,758
Totals	$ 60,930	$ 1,758

Source: The Issuer's Annual Financial Report for the fiscal year ended September 30, 2018 and information from the City.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending (9/30)	Current Total Outstanding Debt [1]	The Certificates Principal	Interest	Total	Total Combined Debt Service	Less: Self Supporting Debt Service	Total Net Debt Service
2019	$ 1,809,106				$ 1,809,106	$ 637,519	$ 1,171,588
2020	1,806,917	$ 140,000	$ 285,700	$ 425,700	2,232,617	733,219	1,499,398
2021	1,797,921	225,000	276,575	501,575	2,299,496	729,646	1,569,850
2022	1,782,861	310,000	263,200	573,200	2,356,061	705,910	1,650,151
2023	1,427,569	340,000	246,950	586,950	2,014,519	598,661	1,415,858
2024	1,421,269	355,000	229,575	584,575	2,005,844	592,361	1,413,483
2025	1,413,181	375,000	211,325	586,325	1,999,506	590,299	1,409,208
2026	1,408,969	390,000	192,200	582,200	1,991,169	587,661	1,403,508
2027	1,398,631	415,000	172,075	587,075	1,985,706	579,524	1,406,183
2028	1,171,950	435,000	150,825	585,825	1,757,775	453,518	1,304,258
2029	1,168,925	450,000	135,450	585,450	1,754,375	450,743	1,303,633
2030	1,174,675	460,000	125,200	585,200	1,759,875	453,393	1,306,483
2031	1,011,600	475,000	113,513	588,513	1,600,113	455,355	1,144,758
2032	583,575	485,000	101,513	586,513	1,170,088	285,305	884,783
2033	583,500	495,000	89,263	584,263	1,167,763	283,405	884,358
2034	582,975	510,000	76,700	586,700	1,169,675	286,293	883,383
2035	582,000	520,000	63,825	583,825	1,165,825	283,968	881,858
2036	580,575	535,000	50,638	585,638	1,166,213	286,430	879,783
2037	583,625	550,000	36,938	586,938	1,170,563	283,659	886,904
2038	-	565,000	22,509	587,509	587,509	93,544	493,966
2039	-	575,000	7,547	582,547	582,547	91,181	491,366
Total	$ 22,289,824	$ 8,605,000	$ 2,851,519	$ 11,456,519	$ 33,746,343	$ 9,461,591	$ 24,284,752

[1] *Includes self-supporting debt.*

TAX ADEQUACY (Includes Self-Supporting Debt)

2019 Preliminary Freeze Adjusted Net Taxable Assessed Valuations	$ 1,403,275,311
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2022)	$ 2,356,061 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	$ 0.1645 *

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

TAX ADEQUACY (Excludes Self-Supporting Debt)

2019 Preliminary Freeze Adjusted Net Taxable Assessed Valuations	$ 1,403,275,311
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2022)	$ 1,650,151 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	$ 0.1152 *

* *Preliminary, subject to change. Includes the Certificates.*
Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2018	$ 969,611
2018 Anticipated Interest and Sinking Fund Tax Levy at 98% Collections Produce [1]	1,293,698
Total Available for General Obligation Debt	$ 2,263,309
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/19	1,171,588
Estimated Surplus at Fiscal Year Ending 9/30/2019 [1]	$ 1,091,721

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

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 9-30	Principal Repayment Schedule: Currently Outstanding[(a)]	The Certificates	Total	Principal Unpaid at End of Year	Percent of Principal Retired (%)
2019				$ 25,045,000	0.00%
2020	$ 1,275,000	$ 140,000	$ 1,415,000	23,630,000	5.65%
2021	1,310,000	225,000	1,535,000	22,095,000	11.78%
2022	1,340,000	310,000	1,650,000	20,445,000	18.37%
2023	1,025,000	340,000	1,365,000	19,080,000	23.82%
2024	1,055,000	355,000	1,410,000	17,670,000	29.45%
2025	1,085,000	375,000	1,460,000	16,210,000	35.28%
2026	1,120,000	390,000	1,510,000	14,700,000	41.31%
2027	1,150,000	415,000	1,565,000	13,135,000	47.55%
2028	960,000	435,000	1,395,000	11,740,000	53.12%
2029	990,000	450,000	1,440,000	10,300,000	58.87%
2030	1,030,000	460,000	1,490,000	8,810,000	64.82%
2031	900,000	475,000	1,375,000	7,435,000	70.31%
2032	495,000	485,000	980,000	6,455,000	74.23%
2033	510,000	495,000	1,005,000	5,450,000	78.24%
2034	525,000	510,000	1,035,000	4,415,000	82.37%
2035	540,000	520,000	1,060,000	3,355,000	86.60%
2036	555,000	535,000	1,090,000	2,265,000	90.96%
2037	575,000	550,000	1,125,000	1,140,000	95.45%
2038	-	565,000	565,000	575,000	97.70%
2039	-	575,000	575,000	-	100.00%
Total	$ 16,440,000	$ 8,605,000	$ 25,045,000		

[(a)] *Includes self-supporting debt.*

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2010-2019 **TABLE 3**

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year: Amount ($)	Percent
2010-11	$ 551,310,764	---	---
2011-12	567,043,409	15,732,645	2.85%
2012-13	589,607,007	22,563,598	3.98%
2013-14	663,672,428	74,065,421	12.56%
2014-15	768,920,713	105,248,285	15.86%
2015-16	878,616,542	109,695,829	14.27%
2016-17	1,001,187,477	122,570,935	13.95%
2017-18	1,123,948,354	122,760,877	12.26%
2018-19	1,308,714,124	184,765,770	16.44%
2019-20	1,403,275,311	94,561,187	7.23%

Source: Collin Central Appraisal District.

PRINCIPAL TAXPAYERS 2018-2019 **TABLE 4**

Name	Type of Business/Property	2018 Net Taxable Assessed Valuation	2018 Assessed Valuation
Wal-Mart Real Estate Business Trust	Retail	$ 15,711,629	1.20%
Wal-Mart Stores Texas LLC	Retail	6,490,505	0.50%
Dahlia Arr LLC	Construction	5,007,819	0.38%
Mentone Partners LLC	Real Estate	3,493,954	0.27%
Larsen Brandon & Heather	Residential	3,307,707	0.25%
Grayson Collin Elec Co-op	Utility	3,235,950	0.25%
Texas Henderson LLC	Construction	3,200,554	0.24%
Williams Karl	Residential	2,953,766	0.23%
Cadg Lewis Park LLC	Home Builder	2,862,000	0.22%
Megatel Homes	Home Builder	2,755,617	0.21%
		$ 49,019,501	3.75%

Source: Collin Central Appraisal District.

TAX RATE DISTRIBUTION — TABLE 5

	2018	2017	2016	2015	2014
General Fund	$ 0.202346	$ 0.198695	$ 0.230371	$ 0.215514	$ 0.233068
Interest and Sinking Fund	0.100870	0.119253	0.087577	0.105147	0.087593
Total	$ 0.303216	$ 0.317948	$ 0.317948	$ 0.320661	$ 0.320661

Source: Collin Central Appraisal District.

TAX DATA — TABLE 6

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

Tax Year	Net Taxable Assessed	Tax Rate	Tax Levy	% of Collections Current	Total	Year Ended
2007	$ 453,521,036	$ 0.375000	$ 1,700,704	99.12	99.88	9/30/2008
2008	508,204,689	0.374189	1,901,646	97.93	98.60	9/30/2009
2009	537,823,145	0.374177	2,012,411	97.16	97.80	9/30/2010
2010	551,310,764	0.374177	2,062,878	97.44	98.06	9/30/2011
2011	567,043,409	0.374177	2,121,746	99.22	99.49	9/30/2012
2012	589,607,007	0.374177	2,206,174	97.76	99.95	9/30/2013
2013	663,672,428	0.374177	2,483,310	94.10	100.00	9/30/2014
2014	768,920,713	0.320661	2,465,629	98.42	100.12	9/30/2015
2015	878,616,542	0.320661	2,817,381	99.27	103.50	9/30/2016
2016	1,001,187,477	0.317948	3,183,256	98.47	101.56	9/30/2017
2017	1,123,948,354	0.317948	3,573,571	99.34	100.60	9/30/2018
2018	1,308,714,124	0.303216	3,968,231	99.11	100.83	9/30/2019
2019	1,403,275,311					9/30/2020

Source: Collin Central Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION — TABLE 7

	2019	% of Total	2018	% of Total	2017	% of Total
Real, Residential, Single-Family	$ 1,315,459,642	79.19%	$ 1,246,763,913	79.88%	$ 1,061,865,911	77.36%
Real, Vacant Lots/Tracts	30,588,360	1.84%	31,999,921	2.05%	25,209,126	1.84%
Real, Acreage (Land Only)	114,715,834	6.91%	106,904,564	6.85%	104,785,749	7.63%
Real, Farm and Ranch Improvements	91,544,712	5.51%	85,157,714	5.46%	84,634,313	6.17%
Real, Commercial and Industrial	41,906,738	2.52%	37,674,833	2.41%	35,619,452	2.59%
Real & Tangible, Personal Utilities	4,196,577	0.25%	7,002,816	0.45%	5,082,631	0.37%
Tangible Personal Business	13,893,742	0.84%	14,368,285	0.92%	14,512,798	1.06%
Tangible Personal, Mobile Homes	74,150	0.00%	72,919	0.00%	127,798	0.01%
Real Property, Inventory	48,768,517	2.94%	30,851,921	1.98%	40,839,495	2.98%
Total Appraised Value	$ 1,661,148,272	100.00%	$ 1,560,796,886	100.00%	$ 1,372,677,273	100.00%
Less:						
Homestead	$ 22,833,098		$ 21,858,900		$ 19,769,756	
Veteran's Exemptions	6,385,207		4,767,876		4,032,295	
Open Space Land and Timberland	113,533,671		105,667,384		104,467,725	
Loss to 10% HO Cap	20,114,645		29,914,407		42,618,070	
Homestead Exemption	95,006,340		89,874,195		77,841,073	
Net Taxable Assessed Valuation	$ 1,403,275,311		$ 1,308,714,124		$ 1,123,948,354	

Values provided by Collin County Appraisal District.

The Issuer has adopted the provisions of Chapter 321, Texas Tax Code, as amended, and pursuant thereto levies a sales and use tax at the rate of 1% on the retail sales of taxable items sold within the Issuer. In addition, some issuers, including the City, are eligible to levy a sales tax of up to ½ of 1% for property tax relief and/or an additional sales tax of up to ½ of 1% for economic development. State law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including municipal street maintenance and repair, sports and community venues, and funding certain projects through municipal development districts created by the City pursuant to Chapter 377, Texas Local Government Code. State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

The Issuer has authorized the 1/2 of 1% sales tax for fire protection and an additional 1/2 of 1% sales tax for street maintenance (See "TAX RATE LIMITATIONS - The Property Tax Code" herein). The figures below represent collections from the combined 2.00% sales tax.

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Lucas Fire Control
2009	$ 156,104	8.21%	$ 0.031	
2010	158,601	7.88%	0.029	
2011	188,417	9.13%	0.034	
2012 (1)	187,174	8.82%	0.033	
2013	622,002	28.19%	0.105	
2014 (2)	827,251	33.31%	0.125	$ 18,107
2015	936,954	38.00%	0.122	260,367
2016 (3)	1,049,924	37.27%	0.119	302,062
2017	1,095,490	34.41%	0.109	320,187
2018	1,105,455	30.93%	0.098	359,192
2019 (4)	586,304			192,211

(1) On May 12, 2012 the voters authorized 1/4 of 1% for property tax relief and 1/4 of 1% for street maintenance and repair.

(2) On May 6, 2014 the voters approved 1/2 of 1% sales tax for fire protection. On May 7, 2019, the voters approved a 10-year extension of the Fire Control Sales Tax.

(3) On May 7, 2016 the voters abolished 1/4 of 1% for property tax relief and increased the sales tax for street maintenance and repair to 1/2 of 1%.

(4) As of June, 2019.

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

OVERLAPPING DEBT INFORMATION

(As of June 30, 2019)

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

Taxing Body	Gross Debt (As of 6/30/19)	% Overlapping	Amount Overlapping
Allen ISD	$ 605,825,427	0.84%	$ 5,088,934
Collin County	392,565,000	0.94%	3,690,111
Collin County CCD	246,415,000	0.94%	2,316,301
Lovejoy ISD	166,105,234	34.33%	57,023,927
McKinney ISD	532,890,000	0.48%	2,557,872
Plano ISD	855,305,000	0.13%	1,111,897
Princeton ISD	165,828,384	0.16%	265,325
Wylie ISD	271,296,564	0.25%	678,241
Total Gross Overlapping Debt			$ 72,732,608
Lucas, City of*			$ 25,045,000
Total Gross Direct and Overlapping Debt			$ 97,777,608
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			6.97%
Per Capita Direct and Overlapping Debt			$12,101.19

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

** Includes the Certificates.*

Note: The above figures show Gross General Obligation Debt for the City of Lucas, Texas. The Issuer's Net General Obligation Debt is $18,055,000. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	$ 90,787,608
Ratio of Direct and Overlapping Debt to Net Assessed Valuation	6.47%
Per Capita Direct and Overlapping Debt	$11,236.09

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

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2018 Assessed Valuation	% of Actual	2018 Tax Rate
Allen ISD	$ 13,003,513,767	100%	$ 1.550
Collin County	138,427,326,503	100%	0.181
Collin County CCD	141,317,314,667	100%	0.081
Lovejoy ISD	2,594,347,164	100%	1.670
McKinney ISD	13,978,757,836	100%	1.590
Plano ISD	49,142,919,873	100%	1.439
Princeton ISD	1,138,268,446	100%	1.620
Wylie ISD	5,930,738,966	100%	1.640

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

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

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Allen ISD	None			
Collin County	11/6/2018	$ 750,000,000	$ 110,655,000	$ 639,345,000
Collin County CCD	5/6/2017	600,000,000	250,000,000	350,000,000
Lovejoy ISD	5/10/2014	75,750,000	61,250,000	14,500,000
McKinney ISD	5/7/2016	220,000,000	213,000,000	7,000,000
Plano ISD	5/7/2016	481,000,000	418,080,000	62,920,000
Princeton ISD	5/4/2019	$ 237,400,000	$ -	$ 237,400,000
	5/6/2017	93,600,000	55,300,000	38,300,000
	Total	$ 331,000,000	$ 55,300,000	$ 275,700,000
Wylie ISD	5/4/2019	$ 193,700,000	$ -	$ 193,700,000
Lucas, City of	None			

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

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

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

	Fiscal Year Ended				
	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Fund Balance - Beginning of Year	$ 10,527,862	$ 9,022,177	$ 7,129,637	$ 6,682,112	$ 6,002,507
Revenues	5,904,590	5,480,110	5,043,186	4,625,337	4,001,739
Expenditures	6,009,447	4,091,406	4,154,817	3,914,250	4,458,534
Excess (Deficit) of Revenues Over Expenditures	$ (104,857)	$ 1,388,704	$ 888,369	$ 711,087	$ (456,795)
Other Financing Sources (Uses):					
Operating Transfers In	$ 718,600	$ 547,441	$ 672,167	$ 405,287	$ 788,899
Proceeds from Notes Payable	-	-	-	-	345,000
Proceeds from Sale of Capital Assets	14,291	1,272	43,255	-	2,501
Operating Transfers Out	-	(431,732)	-	(668,849)	-
Total Other Financing Sources (Uses):	$ 732,891	$ 116,981	$ 715,422	$ (263,562)	$ 1,136,400
Fund Balance - End of Year*	$ 11,155,896	$ 10,527,862	$ 8,733,428	$ 7,129,637	$ 6,682,112

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

**The City anticipates having an unaudited ending Genderal Fund balance of $11,261,216 for the fiscal year ending September 30, 2019.*

Plan Description

The City of Lucas participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.
All eligible employees of the city are required to participate in TMRS.

Benefits provided

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

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

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

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

Employees covered by benefit terms

At the December 31, 2017 and 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	13	12
Inactive employees entitled to but not yet receiving benefits	23	23
Active Employees	37	30
Total	73	65

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state laws governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.
Employees for the City of Lucas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lucas were 13.75% and 13.43% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were $306,720, and were equal to the required contributions.

Net Pension Liability

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

The long-term rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension land's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active an 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.

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
$ 1,214,258	$ 585,300	$ 313,972

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/16	$ 3,297,962	$ 2,546,341	$ 751,621
Changes for the year:			
Service Cost	372,249	-	372,249
Interest	231,198	-	231,198
Difference between expected			-
and actual experience	9,721	-	9,721
Changes of assumptions	-		-
Contributions - employer	-	283,883	(283,883)
Contributions - employee	-	144,523	(144,523)
Net investment income	-	353,005	(353,005)
Benefit payments, including			-
refunds of emp. Contributions	(117,869)	(117,869)	-
Administrative expense	-	(1,829)	1,829
Other changes	-	(93)	93
Net changes	495,299	661,620	(166,321)
Balance at 12/31/16	$ 3,793,261	$ 3,207,961	$ 585,300

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2018, the City recognized pension expense of $305,669.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to TMRS pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 22,401	$ -
Changes in actuarial assumptions	13,183	
Difference between projected and investment earnings	-	92,771
Contributions subsequent to the measurement date	222,492	-
	$ 258,076	$ 92,771

The City reported $222,492 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended 9/30	
2018	$ 12,409
2019	(3,689)
2020	(31,465)
2021	(34,442)
2021	
Thereafter	-
	$ (57,187)

Other Postemployment Benefits

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an “other postemployment benefit,” or OPEB.

The City supplemental death to:	Plan Year 2017	Plan Year 2016
Active Employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

Employees covered by benefit terms

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	5
Inactive employees entitled to but not yet receiving benefits	4
Active employees	37
Total	46

The City's contributions to the TRS SDBF for the years ended 2018, 2017 and 2016 were $166, $0 and $0, respectively, which equaled the required contributions each year.

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

Plan/ Calendar year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2016	0.00%	0.00%	100.0%
2017	0.00%	0.00%	100.0%
2018	0.01%	0.01%	100.0%

Total OPEB Liability

The City's Postemployment Benefits Other than Pensions Liability (OPEB) was measured as of December 31, 2017, and the Total OPEB Liability was determined by an actuarial valuation as of that date

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
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.31%
Retirees' share of benefit -related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP 2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a e-year-0 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.

Discount Rate:

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

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City'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 (2.31%)	Current Single Rate Assumption 3.31%	1% Increase (4.31%)
$ 62,546	$ 50,665	$ 41,593

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/16	$ 40,716
Changes for the year:	
Service Cost	3,716
Interest	1,609
Changes of assumptions	4,624
Benefit payments	
Net changes	9,949
Balance at 12/31/17	$ 50,665

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

For the year ended September 30, 2018, the City recognized OPEB expense of $5,872.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability form the following sources:

Changes in actuarial assumptions	$ 4,077
Contributions subsequent to measurement date	166
Total	$ 4,243

The City reported $166 as deferred outflows of resources related t pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019.

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	$ 547
2019	547
2020	547
2021	547
2022	547
Thereafter	1,342
	$ 4,077

UTILITY SYSTEM PLANT IN OPERATION

TABLE 11

	FYE 9/30/2018
Land	$ 378,257
Construction in Progress	895,468
Machinery and Equipment	1,736,729
Buildings	713,389
Vehicles	61,488
Infrastructure	21,456,841
Total Capital Assets	$ 25,242,172
Less: Accumulated Depreciation	(6,513,348)
Net Capital Assets	$ 18,728,824

Source: The Issuer's Annual Financial Report for fiscal year ended September 30, 2018.

WATER SUPPLY

In 1969, the City entered into a forty-year contract with the North Texas Municipal Water District ("NTMWD") for the purchase of water. In conjunction with the issuance of the Waterworks,System Revenue Bonds, Series 1989, this contract was extended to the year 2029. The contract provides that water, in the volume required by the City, will be provided by the NTMWD and billed monthly at the applicable customer city rate. Since the future amounts and rates are not known, the amount of this commitment cannot be determined.

WATERWORKS SYSTEM OPERATING SYSTEM

TABLE 12

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

Fiscal Year Ended:	9/30/2018	9/30/2017	9/30/2016	9/30/2015	9/30/2014
Revenues	$ 5,418,493	$ 4,437,790	$ 4,340,975	$ 3,994,154	$ 3,695,179
Expenses	3,382,384	3,005,272	2,783,007	2,509,073	2,169,697
Net Revenue Available for Debt Service	$ 2,036,109	$ 1,432,518	$ 1,557,968	$ 1,485,081	$ 1,525,482
Customer Count:					
Water	2,589	2,521	2,438	2,341	2,273

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

(Based on monthly billing)

New Rates
(Effective October 1, 2018)

Residential

Volumetric rate (per 1,000 gallons)

Meter Size	In City Residential Base Rate	Out of City Residential Base Rate
5/8" & 3/4" Meter	$ 22.83	$ 34.24
1" Meter	$ 35.97	$ 53.97
1 1/2" Meter	$ 43.04	$ 64.55
2" Meter	$ 80.94	$ 121.42

Gallons		
0-2000	(Min. Charge, See Meter Size for Base Rate Table)	
2,001-5,000	$ 5.88	$ 9.64
5,001-10,000	$ 6.25	$ 10.25
10,001-30,000	$ 6.55	$ 10.74
30,001-50,000	$ 6.84	$ 11.22
50,001-+	$ 7.35	$ 12.05

Commercial

Volumetric rate (per 1,000)

Meter Size	In City (Base Rate)	Out of City (Base Rate)
5/8" and 3/4"	$ 24.89	$ 37.34
1"	$ 38.29	$ 57.43
1-1/2"	$ 57.69	$ 86.54
2"	$ 120.97	$ 181.46
3"	$ 191.46	$ 287.19
4"	$ 364.84	$ 547.26
6"	$ 539.55	$ 809.32
8"	$ 1,073.26	$ 1,609.89

Gallons		
0-2,000	(Min. Charge, See Meter Size for Base Rate Table)	
2,001-5,000	$ 5.97	$ 9.80
5,001-10,000	$ 6.35	$ 10.41
10,001-30,000	$ 6.64	$ 10.89
30,001-50,000	$ 6.93	$ 11.37
50,001-100,000	$ 7.06	$ 11.58
100,001- +	$ 7.27	$ 11.93

(Based on monthly billing)

Old Rates
(Effective October 1, 2017)

Residential

Volumetric rate (per 1,000 gallons)

Meter Size	In City Residential Base Rate	Out of City Residential Base Rate
5/8" & 3/4" Meter	$ 22.50	$ 33.75
1" Meter	$ 35.33	$ 53.00
1 1/2" Meter	$ 42.97	$ 64.45
2" Meter	$ 78.44	$ 117.67

Gallons		
0-2000	(Min. Charge, See Meter Size for Base Rate Table)	
2,001-5,000	$ 5.56	$ 9.11
5,001-10,000	$ 5.91	$ 9.69
10,001-30,000	$ 6.19	$ 10.15
30,001-50,000	$ 6.46	$ 10.60
50,001-+	$ 6.94	$ 11.39

Commercial

Volumetric rate (per 1,000)

Meter Size	In City (Base Rate)	Out of City (Base Rate)
5/8" and 3/4"	$ 24.86	$ 37.29
1"	$ 37.60	$ 56.40
1-1/2"	$ 57.27	$ 85.91
2"	$ 119.70	$ 179.54
3"	$ 189.28	$ 283.92
4"	$ 363.46	$ 545.18
6"	$ 538.06	$ 807.10
8"	$ 1,066.34	$ 1,599.52

Gallons		
0-2,000	(Min. Charge, See Meter Size for Base Rate Table)	
2,001-5,000	$ 5.59	$ 9.17
5,001-10,000	$ 5.94	$ 9.75
10,001-30,000	$ 6.22	$ 10.19
30,001-50,000	$ 6.49	$ 10.64
50,001-100,000	$ 6.61	$ 10.84
100,001- +	$ 6.81	$ 11.17

SEWER RATES

(As of October 1, 2018)

New Rates

Meter Size	Current Rates
5/8" & 3/4"	$ 24.72
1"	$ 39.85
1 1/2"	$ 75.27
2"	$ 120.00
3"	$ 146.23
4"	$ 338.87
6"	$ 412.52
8"	$ 766.62

Gallons	Consumption Charge for 2,000 gallons and greater
2,000 - Greater	$ 4.70

Old Rates (As of October 1, 2015)

Meter Size	Current Rates
5/8" & 3/4"	$ 22.47
1"	$ 39.26
1 1/2"	$ 74.16
2"	$ 118.23
3"	$ 144.07
4"	$ 333.86
6"	$ 406.43
8"	$ 755.29

Gallons	Consumption Charge for 2,000 gallons and greater
2,000 - Greater	$ 4.32

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF LUCAS
AND COLLIN COUNTY TEXAS

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GENERAL INFORMATION

City of Lucas

The City of Lucas (the "City") is located in north Texas approximately 68 miles south of the Texas-Oklahoma border, 40 miles northeast of Dallas, and located in Collin County, Texas. The City was incorporated in February 1959 and adopted its Home Rule Charter on May 15, 2008. The City is expected to grow steadily as people leave the more urban areas of the metroplex, and seek the higher quality of life that the City offers its residents. Most residents work outside of the Lucas city limits, and commute within the Dallas area.

The City of Lucas enjoys a stable economy and has benefited from a robust economy in the Dallas Metropolitan area. Highlights include:

- 79 new homes were permitted annually with an average taxable market value of $592,002,
- Commercial development included completion of a Fed-Ex Center (Wal-Mart) submittal of site, landscape, and architectural plans for O'Reilly's auto parts store on Angel Parkway,
- Completion of Lucas Plaza Phase One (8,000 square foot retail center) located on southeast corner of Angel Parkway and Lake Travis Drive. The tenant spaces are two dentists and one nail salon,
- Village Center (south of Jessica) Seven acres with potential for a planned development,
- Village Center Phase 2 on Country Club plans have been picked up and the building has started,
- Permits were issued for Tabernacle Church on West Lucas and a 3,000 square foot church at the intersection of Orr Road and Horseman,
- Park improvements included construction of a new pavilion, sports court at Forest Creek Park, cleanup, repair, and landscape enhancements to Community and Kenneth R Lewis parks,
- Roadway improvements included completion of Winningkoff Road Reverse Curve, West Lucas Road widening and overlay, and White Rock Trail, and
- Water system improvements included installation of flood monitoring devices at Stinson Road and Snider Lane, Parker Road 12-inch water line phase 1 and Parker Road 6-inch water line phase 2

Education

The City is encompassed by 6 school districts; Lovejoy ISD, Allen ISD, McKinney ISD, Plano ISD, Princeton ISD and Wylie ISD. Lovejoy ISD is the only district with schools situated within the city limits.

Higher Education

The Collin County Community College District serves the City of Lucas.

The County

Collin County is located in North Central Texas. The County was incorporated in 1846 and both the County and the County seat were named after the pioneer Collin McKinney. The County has a land area of 836 square miles.

The County has a recent history of rapid growth that rivals any fast growing area in the entire United States. The rate of growth is expected to dramatically increase in upcoming years. The population increased by 3.2% in 2018 and 2.8% in 2017. Due to major corporate construction projects recently completed, planned and currently underway, the growth is expected to continue to increase rapidly in upcoming years.

Some of the major business activity that has been occurring includes the Toyota North American Headquarters (on Collin-Denton County line), the Ford Center at the Star in Frisco (Dallas Cowboy World Headquarters), Legacy West, Frisco Station, The Gate, Wade Park, JP Morgan Chase, and the Gates of Prosper. The Professional Golf Association (PGA) of America announced they will also be coming to the County soon.

Major industries with headquarters or divisions located within the county include financial, petroleum research, electronics, retail, hotel, food, professional sports, and insurance institutions.

Labor Force Statistics [1]

	2019 [2]	2018 [3]	2017 [3]	2016 [3]
Civilian Labor Force	554,612	545,243	532,717	513,282
Total Employed	540,211	527,191	514,292	49,5148
Total Unemployed	14,401	18,052	18,425	18,134
% Unemployment	2.6%	3.3%	3.5%	3.5%
Texas Unemployment	2.9%	3.9%	4.3%	4.6%

(1) Source: Texas Workforce Commission.
(2) As of May, 2019.
(3) Average Annual Statistics.

Collin County provides a full range of services, including judicial; law enforcement; maintaining land and vital records; jail facilities; construction and maintenance of roads, bridges, and other infrastructure; recreational activities and facilities; indigent health assistance; and homeland security response teams.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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FINAL

IN REGARD to the authorization and issuance of the "City of Lucas, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019" (the *Certificates*), dated August 1, 2019 in the aggregate principal amount of $8,605,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Lucas, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of $5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2020 through 2039, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

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

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

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

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

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

Norton Rose Fulbright US LLP

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APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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

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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lucas, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor'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

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of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.D. to the financial statements, due to the implementation of GASB No. 75, the City restated its beginning net position within governmental activities and business-type activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. 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, the general fund budgetary comparison information, the schedule of changes in net pension liabilities and related ratios, the schedule of employer contributions to pension plan, and schedule of changes in the other postemployment benefits liability and related ratios, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

BrooksWatson & Co.

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
February 15, 2019

Lucas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lucas

City of Lucas, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2018

As management of the City of Lucas, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 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 on pages 1-6 of this report.

Financial Highlights

- The assets of the City exceeded its liabilities (net position) at September 30, 2018 by $52,660,406. Of this amount, $14,329,328 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net position increased by $2,940,856. The majority of the City's net position are invested in capital assets and restricted for specific purposes.

- The City's governmental funds reported combined ending fund balances of $17,085,461 at September 30, 2018, a decrease of $1,198,543 from the prior fiscal year; this includes an increase of $136,549 in the debt service fund, a decrease of $1,974,717 in the capital improvement fund, an increase of $11,591 in the nonmajor Lucas Fire District fund, and an increase of $628,034 in the general fund.

- At the end of the fiscal year, unassigned fund balance for the general fund was $7,380,496 or 123% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

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

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and community development. The business-type activities of the City include water and sewer operations.

The government-wide financial statements only include the City itself (known as the *primary government*), and does not include any other legally separate entities for which the City is financially accountable.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds. The Lucas fire district fund is considered nonmajor for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, capital projects fund, and fire district fund. A budgetary comparison statement has been provided for each fund to demonstrate compliance with the budget.

Proprietary Funds

The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund since it is considered a major fund of the City.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire 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 *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison for the general fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Lucas, assets exceed liabilities by $52,660,406 as of September 30, 2018 in the primary government.

The largest portion of the City's net position, $34,580,812, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 17,795,165	$ 9,668,419	$ 27,463,584	$ 19,750,732	$ 9,632,649	$ 29,383,381
Capital assets, net	26,581,779	18,728,824	45,310,603	24,212,241	18,378,860	42,591,101
Total Assets	44,376,944	28,397,243	72,774,187	43,962,973	28,011,509	71,974,482
Total Deferred Outflows	180,105	78,926	259,031	299,934	100,628	400,562
Other liabilities	1,645,895	773,871	2,419,766	2,402,707	890,728	3,293,435
Long-term liabilities	11,936,159	5,898,859	17,835,018	12,979,577	6,378,297	19,357,874
Total Liabilities	13,582,054	6,672,730	20,254,784	15,382,284	7,269,025	22,651,309
Total Deferred Inflows	95,748	22,280	118,028	4,185	-	4,185
Net Position:						
Net investment in capital assets	19,557,740	15,023,072	34,580,812	18,969,607	14,790,563	33,760,170
Restricted	3,194,287	555,979	3,750,266	2,425,677	436,201	2,861,878
Unrestricted	8,127,220	6,202,108	14,329,328	7,481,154	5,616,348	13,097,502
Total Net Position	$ 30,879,247	$ 21,781,159	$ 52,660,406	$ 28,876,438	$ 20,843,112	$ 49,719,550

During the current year, the City's current assets for governmental activities decreased. This change was a direct result of the expenditure of the Certificates of Obligation bond proceeds issued in the prior year. The City's capital assets in governmental activities increased $2,369,538. This increase is primarily attributed to the City's investments in infrastructure and fire equipment assets in the current year.

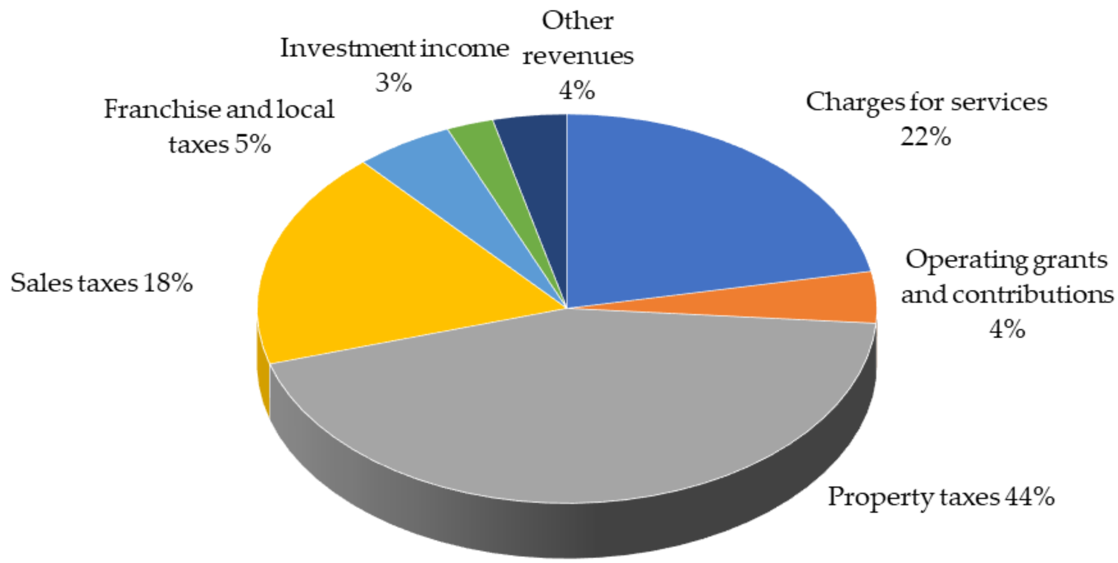
Statement of Activities:

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

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	$ 1,756,284	$ 5,314,349	$ 7,070,633	$ 1,519,101	$ 4,403,061	$ 5,922,162
Operating grants and contributions	-	-	-	126,168	-	126,168
Capital grants and contributions	342,372	37,419	379,791	-	417,020	417,020
General revenues:						
Property taxes	3,534,633	-	3,534,633	3,176,863	-	3,176,863
Sales taxes	1,454,670	-	1,454,670	1,407,216	-	1,407,216
Franchise and local taxes	410,594	-	410,594	318,056	-	318,056
Investment income	195,398	104,144	299,542	80,081	33,792	113,873
Other revenues	309,452	-	309,452	64,651	-	64,651
Total Revenues	8,003,403	5,455,912	13,459,315	6,692,136	4,853,873	11,546,009
Expenses						
General government	935,150	-	935,150	961,459	-	961,459
Public safety	2,223,061	-	2,223,061	2,082,243	-	2,082,243
Public works	2,189,754	-	2,189,754	971,612	-	971,612
Parks and recreation	126,327	-	126,327	113,916	-	113,916
Development services	408,654	-	408,654	345,336	-	345,336
Interest and fiscal charges	392,146	216,753	608,899	373,570	157,412	530,982
Utility	-	4,026,614	4,026,614	-	3,682,868	3,682,868
Total Expenses	6,275,092	4,243,367	10,518,459	4,848,136	3,840,280	8,688,416
Change in Net Position Before Transfers	1,728,311	1,212,545	2,940,856	1,844,000	1,013,593	2,857,593
Transfers	274,498	(274,498)	-	158,865	(158,865)	-
Total	274,498	(274,498)	-	158,865	(158,865)	-
Change in Net Position	2,002,809	938,047	2,940,856	2,002,865	854,728	2,857,593
Beginning Net Position	28,876,438	20,843,112	49,719,550	26,873,573	19,988,384	46,861,957
Ending Net Position	$ 30,879,247	$ 21,781,159	$ 52,660,406	$ 28,876,438	$ 20,843,112	$ 49,719,550

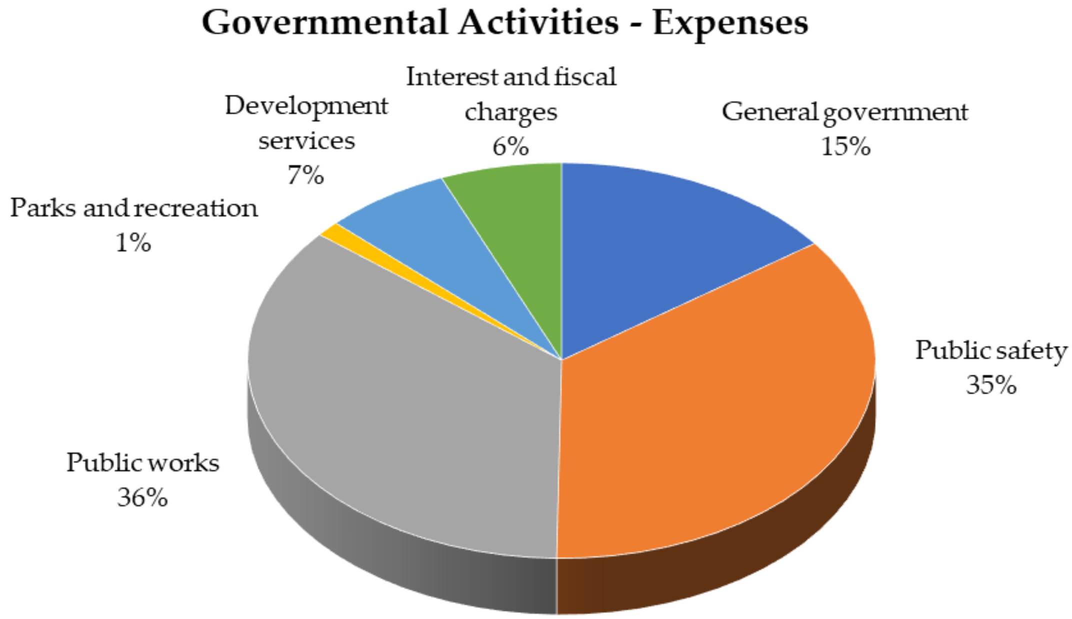
Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

Governmental Activities - Revenues



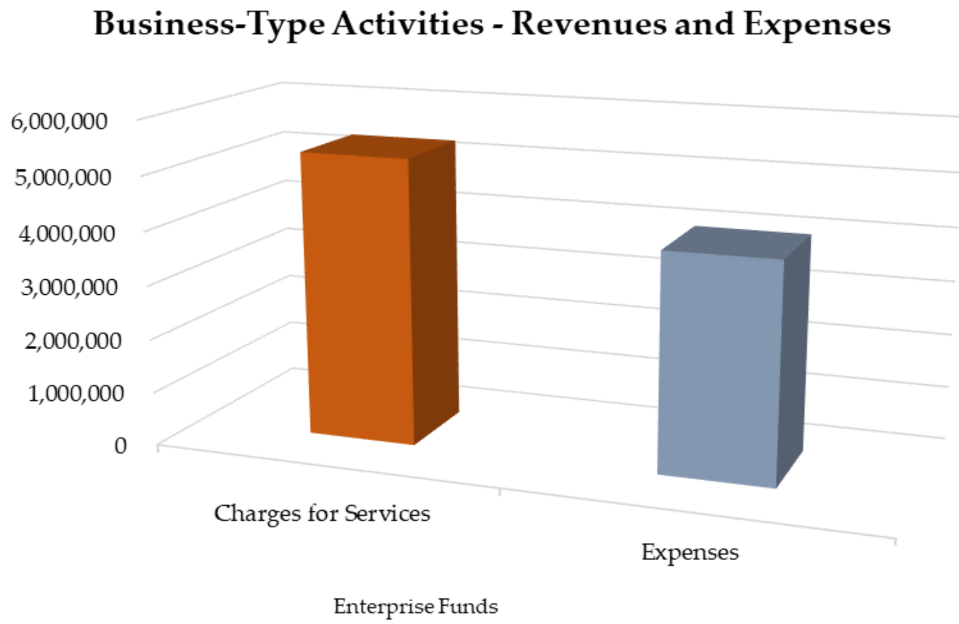
For the year ended September 30, 2018, revenues from governmental activities totaled $8,003,403. Property tax, sales tax and charges for services are the City's largest general revenue sources. Overall revenue increased $1,311,267 or 20%. Charges for services increased by $237,183 primarily due to an increase in new home construction permits in the current year. Grants and contributions increased by $216,204 which is attributed to nonrecurring intergovernmental funding from Collin County for roadway improvements, such as West Lucas road (FM 2551 to FM 1378). Property taxes increased by $357,770, which is primarily attributed to the increase in appraised property values. Franchise and local taxes increased by $92,538 due to economic growth within the City. Investment income increased by $115,317 as a result of the increase in interest-bearing cash accounts. Other revenues increased by $244,801 primarily as a result of a private donation the City received for the purchase of a new ambulance. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:



For the year ended September 30, 2018, expenses for governmental activities totaled $6,275,092. This represents an increase of $1,426,956 or 29% from the prior year. The City's largest functional expense is public safety of $2,223,061. Public safety expenses increased by $140,818 or 7% primarily due to increased personnel and contract costs with Collin County. Public works increased by $1,218,142, which is mainly attributable to current year road repair projects. Parks and recreation increased $12,411 or 11% mainly due to salaries and special event expenses. Development services increased $63,318 or 18% due to increased personnel and professional services expenses. All other expenditures remained relatively stable when compared to the previous year.

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



For the year ended September 30, 2018, charges for services by business-type activities totaled $5,314,349. This is an increase of $911,288 or 21%, from the previous year. This variance is due to an increase in water consumption and sewer billing rates in the current year.

Total expenses increased $403,087 or 10% to a total of $4,243,367, due primarily to an increase in the North Texas Municipal Water District contract, the City's source of water and trash services expenditures.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

At September 30, 2018, the City's governmental funds reported combined fund balances of $17,085,461, a decrease of $1,198,543 in comparison with the prior year. Approximately 43% of this amount $7,380,496 constitutes *unassigned fund balance,* which is available for spending at the government's discretion. The remainder of the fund balance is *restricted*.

As of the end of the year the general fund reflected a total fund balance of $11,155,896. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The total fund balance of General Fund is 186% of total general fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of $7,380,496 is 123% of total general fund expenditures. The general fund increased by $628,034 compared to the prior year. This increase is mainly attributed to less than anticipated capital outlay and other expenditures.

The debt service fund had an ending fund balance of $969,611 at September 30, 2018 compared to the previous year's balance of $833,062. Principal payments amounted to $785,000 and interest payments totaled $412,371 in the current year.

The capital improvement fund ending fund balance is $4,892,086. During the year, the City expended $2,264,236 on various projects during the year from this fund.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position in the utility fund totaled $21,781,159. Unrestricted net position of the enterprise fund at the close of the fiscal year amounted to $6,202,108. Total net position increased $938,047. The fund had an investment in capital assets, net of related debt of $15,023,072. The City operates and maintains a water and sewer distribution system with force mains and lift stations. The City has six water storage facilities with a total capacity of approximately 2.6 million gallons. The following are additional comments regarding operations of the enterprise fund:

- The City received developer contributions of $37,419 consisting of water infrastructure.
- Operational expenses excluding depreciation and amortization were $3,382,384.
- Cash and cash equivalents in the utility fund were $5,996,412 at fiscal year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were several budget amendments approved during the fiscal year, and increased budgeted expenditures by $1,254,638. The amendment also increased budgeted revenues by $570,941. The following are additional comments regarding appropriations:

- There was a total positive variance of $272,602 in final budgeted revenue compared to actual.
- $938,260 is the surplus of revenues over expenditures before transfers.
- There was a net positive change in fund balance of $1,123,273.
- Significant amendments include an increase of $738,698 in capital outlay expenditures for the purchase of a fire truck.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested $26,581,779 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested $18,728,824 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles, equipment, park improvements, and infrastructure. The City's total investment in capital assets increased by $820,642, net of depreciation.

Major capital asset events during the current year include the following:

- Investment in water utility infrastructure of $687,856.
- Purchase of new water meters totaling $257,855.
- Investment in new road infrastructure totaling $2,321,115.
- New fire department equipment totaling $181,397.
- Purchase of new fire truck amounting to $731,176.

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

LONG-TERM DEBT

At the end of the current fiscal year, the City had total debt obligations of $18,222,011, including premiums. Of this amount, $6,179,189 is self-supporting through revenues collected from the rates of the City's utility fund. All of the City's debt is backed by a full-faith credit pledge of property taxes with a limited pledge of revenues of the enterprise/utility system. The City monitors its debt obligations and callable bonds for refinancing opportunities with market conditions.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following known factors were considered in preparing the City's operating budget for FY 2018-2019:

- This budget will raise more total property taxes than last year's budget by $339,130 or 10.65%, and of that amount, $359,140 is tax revenue to be raised from new property added to the tax roll.
- The approved budget for all funds for FY 2018-2019 reflects total anticipated revenues of $11,693,058 and total anticipated expenditures of $11,387,591.
- The City tax rate is set each fall and is enacted via ordinance. The rate for fiscal year 2018-2019 was enacted by Ordinance #2018-09-00885 and is set to $0.303216 cents per $100 of valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance at 665 Country Club Rd., Lucas, Texas 75002 or call (972) 727-8999.

FINANCIAL STATEMENTS

City of Lucas, Texas

STATEMENT OF NET POSITION (Page 1 of 2)

September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 7,572,408	$ 5,996,412	$ 13,568,820
Restricted cash	9,542,277	3,013,666	12,555,943
Restricted investments	233,592	-	233,592
Receivables, net	446,888	658,341	1,105,229
Total Current Assets	17,795,165	9,668,419	27,463,584
Capital assets:			
Non-depreciable	3,596,114	1,273,725	4,869,839
Net depreciable capital assets	22,985,665	17,455,099	40,440,764
	26,581,779	18,728,824	45,310,603
Total Assets	44,376,944	28,397,243	72,774,187
Deferred Outflows of Resources			
Pension contributions	185,190	53,435	238,625
OPEB contributions	126	40	166
Pension proportion changes	(30,505)	-	(30,505)
Pension experience vs actual	-	5,380	5,380
Pension assumption changes	-	3,166	3,166
OPEB assumption changes	3,098	979	4,077
Deferred charge on refunding	22,196	15,926	38,122
Total Deferred Outflows of Resources	180,105	78,926	259,031

City of Lucas, Texas

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	270,528	38,837	309,365
Unearned revenue	363,591	-	363,591
Accrued interest payable	64,065	35,033	99,098
Customer deposits	21,600	247,600	269,200
Long term debt due within one year	926,111	452,401	1,378,512
	1,645,895	773,871	2,419,766
Noncurrent liabilities:			
Due in more than one year	11,189,133	5,746,123	16,935,256
Net pension liabilities	708,529	140,568	849,097
OPEB liability	38,497	12,168	50,665
Total Liabilities	13,582,054	6,672,730	20,254,784
Deferred Inflows of Resources			
Pension investment earnings	72,822	22,280	95,102
Pension experience vs actual	20,306	-	20,306
Pension assumption changes	2,620	-	2,620
Total Deferred Inflows of Resources	95,748	22,280	118,028
Net Position			
Net investment in capital assets	19,557,740	15,023,072	34,580,812
Restricted for:			
Impact fees	1,572,405	-	1,572,405
Debt service	969,611	435,000	1,404,611
Capital projects	-	120,979	120,979
Municipal court	62,899	-	62,899
Fire protection	67,868	-	67,868
Cable fees	25,318	-	25,318
Street maintenance (Brockdale)	245,054	-	245,054
Capital outlay (Other)	150,000	-	150,000
Capital outlay (Ambulance)	100,000	-	100,000
Capital outlay (Playground E&P)	1,132	-	1,132
Unrestricted	8,127,220	6,202,108	14,329,328
Total Net Position	$ 30,879,247	$ 21,781,159	$ 52,660,406

See Notes to Financial Statements.

City of Lucas, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

		Program Revenues	
Functions/Programs	**Expenses**	**Charges for Services**	**Capital Grants and Contributions**
Primary Government			
Governmental Activities			
General government	$ 935,150	$ -	$ -
Public safety	2,223,061	509,862	-
Public works	2,189,754	341,597	342,372
Parks and recreation	126,327	-	-
Development services	408,654	904,825	-
Interest and fiscal charges	392,146	-	-
Total Governmental Activities	6,275,092	1,756,284	342,372
Business-Type Activities			
Utility fund	4,243,367	5,314,349	37,419
Total Business-Type Activities	4,243,367	5,314,349	37,419
Total Primary Government	$ 10,518,459	$ 7,070,633	379,791

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (935,150)	$ -	$ (935,150)
(1,713,199)	-	(1,713,199)
(1,505,785)	-	(1,505,785)
(126,327)	-	(126,327)
496,171	-	496,171
(392,146)	-	(392,146)
(4,176,436)	-	(4,176,436)
-	1,108,401	1,108,401
-	1,108,401	1,108,401
(4,176,436)	1,108,401	(3,068,035)
3,534,633	-	3,534,633
1,454,670	-	1,454,670
410,594	-	410,594
195,398	104,144	299,542
309,452	-	309,452
274,498	(274,498)	-
6,179,245	(170,354)	6,008,891
2,002,809	938,047	2,940,856
28,876,438	20,843,112	49,719,550
$ 30,879,247	$ 21,781,159	$ 52,660,406

City of Lucas, Texas

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2018

	General	Debt Service	Capital Improvement	Nonmajor Lucas Fire District
Assets				
Cash and cash equivalents	$ 7,567,589	$ -	$ -	$ 4,819
Receivables, net	352,285	17,733	13,821	63,049
Cash and cash equivalents - restricted	3,541,808	969,611	5,030,858	-
Restricted investments	233,592	-	-	-
Total Assets	$ 11,695,274	$ 987,344	$ 5,044,679	$ 67,868
Liabilities				
Accounts payable and accrued liabilities	$ 117,935	$ -	$ 152,593	$ -
Unearned revenue	363,591	-	-	-
Customer deposits	21,600	-	-	-
Total Liabilities	503,126	-	152,593	-
Deferred Inflows of Resources				
Unavailable revenue - Property taxes	36,252	17,733	-	-
Total Deferred Inflows	36,252	17,733	-	-
Fund Balances				
Restricted for:				
Impact fees	1,572,405	-	-	-
Pensions	233,592	-	-	-
Debt service	-	969,611	-	-
Capital improvements	1,385,000	-	4,892,086	-
Municipal court	62,899	-	-	-
Fire protection	-	-	-	67,868
Cable fees	25,318	-	-	-
Street maintenance (Brockdale)	245,054	-	-	-
Capital outlay (Other)	150,000	-	-	-
Capital outlay (Ambulance)	100,000	-	-	-
Capital outlay (Playground E&P)	1,132	-	-	-
Unassigned	7,380,496	-	-	-
Total Fund Balances	11,155,896	969,611	4,892,086	67,868
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 11,695,274	$ 987,344	$ 5,044,679	$ 67,868

See Notes to Financial Statements.

Total Governmental Funds
$ 7,572,408
446,888
9,542,277
233,592
$ 17,795,165
$ 270,528
363,591
21,600
655,719
53,985
53,985
1,572,405
233,592
969,611
6,277,086
62,899
67,868
25,318
245,054
150,000
100,000
1,132
7,380,496
17,085,461
$ 17,795,165

Lucas

City of Lucas, Texas

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

September 30, 2018

Fund Balances - Total Governmental Funds	$	17,085,461
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		3,596,114
Capital assets - net depreciable		22,985,665
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property tax receivable		53,985
Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/expenditure) until then.		
Pension contributions		185,190
OPEB contributions		126
Pension investment earnings		(72,822)
Pension experience vs actual		(20,306)
Pension assumption changes		(2,620)
OPEB assumption changes		3,098
Pension proportion changes		(30,505)
Deferred charge on refunding		22,196
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(64,065)
Bond premium		(341,892)
Non-current liabilities due in one year		(926,111)
Non-current liabilities due in more than one year		(10,847,241)
Net pension liability - TMRS		(444,732)
OPEB liability - TMRS		(38,497)
Net pension liability - LOSAP		(221,634)
Net pension liability - TESRS		(42,163)
Net Position of Governmental Activities	$	30,879,247

See Notes to Financial Statements.

City of Lucas, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	General	Debt Service	Capital Improvement	Nonmajor Lucas Fire District
Revenues				
Property tax	$ 2,201,507	$ 1,316,678	$ -	$ -
Sales tax	1,100,167	-	-	354,503
Franchise and local taxes	410,594	-	-	-
Licenses and permits	871,480	-	-	-
Impact fees	341,597	-	-	-
Fire department agreements	508,170	-	-	-
Grants and contributions	54,799	-	287,573	-
Fines and forfeitures	35,037	-	-	-
Investment income	75,020	17,242	103,136	-
Other revenue	306,219	-	-	-
Total Revenues	5,904,590	1,333,920	390,709	354,503
Expenditures				
Current:				
General government	918,481	-	-	-
Public safety	2,113,481	-	-	-
Public works	455,740	-	-	-
Development services	405,016	-	-	-
Parks and recreation	86,102	-	-	-
Debt Service:				
Principal	59,218	785,000	-	-
Interest and fiscal charges	3,471	412,371	-	-
Capital outlay	1,967,938	-	2,264,236	-
Total Expenditures	6,009,447	1,197,371	2,264,236	-
Revenues Over (Under) Expenditures	(104,857)	136,549	(1,873,527)	354,503
Other Financing Sources (Uses)				
Transfers in	718,600	-	-	-
Transfers (out)	-	-	(101,190)	(342,912)
Sale of capital assets	14,291	-	-	-
Total Other Financing Sources (Uses)	732,891	-	(101,190)	(342,912)
Net Change in Fund Balances	628,034	136,549	(1,974,717)	11,591
Beginning fund balances	10,527,862	833,062	6,866,803	56,277
Ending Fund Balances	$ 11,155,896	$ 969,611	$ 4,892,086	$ 67,868

See Notes to Financial Statements.

Total Governmental Funds
$ 3,518,185
1,454,670
410,594
871,480
341,597
508,170
342,372
35,037
195,398
306,219
7,983,722
918,481
2,113,481
455,740
405,016
86,102
844,218
415,842
4,232,174
9,471,054
(1,487,332)
718,600
(444,102)
14,291
288,789
(1,198,543)
18,284,004
$ 17,085,461

Lucas

City of Lucas, Texas

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

For the Year Ended September 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	$	(1,198,543)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		3,357,629
Depreciation expense		(977,033)
The net effect of capital asset disposals during the current year.		(11,058)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		16,448
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		(16,248)
Accrued interest		9,060
Pension expense		(31,964)
OPEB expense		(4,336)
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Amortization of deferred charges on refunding		(7,400)
Amortization of debt premium		22,036
Debt payments		844,218
Change in Net Position of Governmental Activities	$	2,002,809

See Notes to Financial Statements.

City of Lucas, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2018

		Utility
Assets		
Current Assets		
Cash and cash equivalents	$	5,996,412
Restricted cash		3,013,666
Receivables, net		658,341
Total Current Assets		9,668,419
Noncurrent Assets		
Capital assets:		
Non-depreciable		1,273,725
Net depreciable capital assets		17,455,099
Total Noncurrent Assets		18,728,824
Total Assets		28,397,243
Deferred Outflows of Resources		
Pension contributions		53,435
OPEB contributions		40
Pension experience vs actual		5,380
Pension assumption changes		3,166
OPEB assumption changes		979
Deferred charge on refunding		15,926
Total Deferred Outflows of Resources		78,926
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities		38,837
Accrued interest		35,033
Customer deposits		247,600
Current portion of long term debt		452,401
Total Current Liabilities		773,871
Noncurrent Liabilities		
Noncurrent portion of long term debt		5,746,123
Net pension liability		140,568
OPEB liability		12,168
Total Liabilities		6,672,730
Deferred Inflows of Resources		
Pension investment earnings		22,280
Net Position		
Net investment in capital assets		15,023,072
Restricted for:		
Debt service		435,000
Capital projects		120,979
Unrestricted		6,202,108
Total Net Position	$	21,781,159

See Notes to Financial Statements.

City of Lucas, Texas

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

For the Year Ended September 30, 2018

		Utility
Operating Revenues		
Charges for services	$	4,951,064
Impact fees		363,216
Other revenue		69
Total Operating Revenues		5,314,349
Operating Expenses		
Personnel		679,463
Contractual services		2,003,522
Trash services		525,147
Supplies and materials		17,713
Maintenance and repair		156,539
Depreciation		644,230
Total Operating Expenses		4,026,614
Operating Income		1,287,735
Non-Operating Revenues (Expenses)		
Investment income		104,144
Interest expense		(216,753)
Total Non-Operating Revenues (Expenses)		(112,609)
Income Before Capital Contributions and Transfers		1,175,126
Contributed capital		37,419
Transfers (out)		(274,498)
Change in Net Position		938,047
Beginning net position		20,843,112
Ending Net Position	$	21,781,159

See Notes to Financial Statements.

City of Lucas, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2018

		Utility
Cash Flows from Operating Activities		
Receipts from customers	$	5,302,491
Payments to suppliers		(2,827,265)
Payments to employees		(675,988)
Net Cash Provided by (Used for) Operating Activities		1,799,238
Cash Flows from Noncapital Financing Activities		
Transfer (out)		(274,498)
Net Cash (Used for) Noncapital Financing Activities		(274,498)
Cash Flows from Capital and Related Financing Activities		
Capital purchases		(961,095)
Capital disposals		4,320
Principal paid on debt		(425,000)
Interest paid on debt		(225,197)
Net Cash (Used for) Capital and Related Financing Activities		(1,606,972)
Cash Flows from Investing Activities		
Interest on investments		104,144
Net Cash Provided by Investing Activities		104,144
Net Increase in Cash and Cash Equivalents		21,912
Beginning cash and cash equivalents		8,988,166
Ending Cash and Cash Equivalents	$	9,010,078

See Notes to Financial Statements.

City of Lucas, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2018

		Utility
Reconciliation of Operating Income		
to Net Cash Provided by Operating Activities		
Operating Income	$	1,287,735
Adjustments to reconcile operating		
income to net cash provided:		
Depreciation		644,230
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable		(13,858)
Increase (Decrease) in:		
Accounts payable and accrued liabilities		(124,344)
Compensated absences		2,357
Customer deposits		2,000
Deferred outflows - pension contributions		(5,485)
Deferred outflows - OPEB contributions		(40)
Deferred outflows - investment earnings		41,527
Deferred outflows - pension experience vs. actual		1,076
Deferred outflows - pension assumption changes		2,574
Deferred outflows - OPEB assumption changes		(979)
Net pension liability		(39,944)
OPEB liability		2,389
Net Cash Provided by Operating Activities	$	1,799,238
Schedule of Non-cash Capital and Related Financing Activities:		
Capital contributions	$	37,419

See Notes to Financial Statements.

Lucas

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Lucas, Texas (the "City") is a municipal corporation of the State, duly organized and existing under the laws of the State of Texas including the City's Home Rule Charter. The City was incorporated in 1959, and first adopted its Home Rule Charter in September 2008. The City operates under a Council/Manager form of government with a City Council composed of the Mayor and six-member Council. The City provides the following services as authorized by its charter: public safety, public works, sanitation, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services.

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

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

Blended Component Unit

<u>Lucas Fire District</u>

The City created the Lucas Fire District in January 2014 to fund and improve fire control, prevention, and emergency medical service within the City's limits. The creation of this district allows the City to collect extra sales tax that is restricted for this purpose. Currently, the City's Mayor and Council serve as directors of this district and there is a financial benefit/burden with the City.

B. Basis of Presentation - Government-Wide and Fund Financial Statements

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

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

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

The government reports the following governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, culture and recreation, community development, and nondepartmental. This fund is considered to be a major fund.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes. This fund is considered to be a major fund.

Capital Improvements Fund

The capital projects fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds. This fund is considered to be a major fund.

Lucas Fire District Fund

The fund accounts for the activity of the aforementioned Lucas Fire District. This fund is a non-major fund.

The government reports the following major enterprise fund:

Utility Fund

This fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

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

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

C. Measurement focus and basis of accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

D. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

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

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool and LOGIC, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government, State of Texas and agencies thereof
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual

balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."
Advances between funds are offset by a nonspendable fund balance account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized (the consumption method).

5. 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 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years
Infrastructure	5 to 30 years
Buildings and improvements	25 years

6. Net Position Flow Assumption

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

7. Fund Balance Flow Assumptions

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

The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in the fund.

8. Fund Balance Policies

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

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

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

The government has adopted a policy to maintain a minimum reserve of an amount equal to or greater than 50% of operating expenditures in the general and utility funds.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

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

10. Estimates

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

11. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position and additions to/deductions from 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.

12. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is $7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

E. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

3. Compensated Absences

City employees earn vacation and sick leave, which may either be taken or accumulated, up to certain amounts, until retirement or termination. There is no liability for unpaid accumulated sick leave when employees separate from service with the City. All vacation and qualifying sick leave 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 are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations and retirements. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, capital improvements, Lucas Fire District, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As stated in I.D.1., the City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The City's investments in 2a7-like pools such as TexPool are included in this category. Although the City's investments in TexPool and TexStar are available for immediate withdrawal, disclosure of the pool's weighted average maturity and bond rating are required. The City had the following investments at year end:

Investment Type	Value	Weighted Average Maturity (Days)	Credit Rating
Group annuity	$ 233,592	0.00	AA+
External investment pools			
TexPool	950,033	28	AAAm
LOGIC	14,658,192	42	AAAm
Lone Star	2,733,188	28	AAAm
Total value	$ 18,575,005		
Total portfolio		33	

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2018, the City's investment in TexPool, LOGIC, and the Lone Star Investment Pool were rated AAAm by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2018, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

LOGIC

LOGIC is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. The pool was created in April 1994 through a contract among its participating governmental units, and is governed by a board of directors (the board) to provide for the joint investments of participant's public funds and funds under their control. LOGIC's policy seeks to invest pooled assets in a manner that will provide for safety of principal, liquidity in accordance with the operating requirements of the Participants, and a competitive rate of return by utilizing economies of scale and professional investment expertise. Standard & Poor's rates Local Government Investment Cooperative (LOGIC) 'AAAm'. This is Standard & Poor's highest principal stability fund rating and is based on an analysis of the pool's investment portfolio and guidelines, market price exposure, and management. The rating demonstrates that the pool has an extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. LOGIC has a conservative investment policy and invests in only authorized investments under the Texas Public Funds Investment Act.

To ensure an accurate and current rating, Standard & Poor's monitors pertinent pool information, including the fund's portfolio holdings, on a weekly basis. There were no limitations or restrictions on withdrawals.

Lone Star Investment Pool

The Lone Star Investment Pool limits investments only to those allowed by the Public Funds Investment Act. The Lone Star fund has earned Standard & Poor's highest rating (AAA), which meets the standards set by the Public Funds Investment Act. There were no limitations or restrictions on withdrawals.

A. Fair Value Measurement

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are remeasured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City’s financial instruments consist of cash and cash equivalents, investments in certificates of deposits maturing in greater than three months, and accounts receivable. The estimated fair value of cash, cash equivalents, investments, and accounts receivable approximate their carrying amounts due to the short-term nature of these instruments.

The following table sets forth by level, within the fair value hierarchy, the City’s fair value measurements at September 30, 2018.

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Group Annuity	$ 233,592	$ 233,592	$ -	$ -
Total Assets at fair value	$ 233,592	$ 233,592	$ -	$ -

The City’s may redeem the group annuity investment without notice or penalty. The value at redemption will be equal to the book value at that time. The annuity has a fixed interest rate of 3%.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Debt Service	Capital Improvement	Lucas Fire District	Utility
Property taxes	$ 36,252	$ 17,733	$ -	$ -	$ -
Sales tax	183,967	-	-	63,049	-
Franchise tax	132,066	-	-	-	-
Accounts	-	-	-	-	649,511
Other	-	-	13,821	-	9,689
Allowance	-	-	-	-	(859)
	$ 352,285	$ 17,733	$ 13,821	$ 63,049	$ 658,341

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	$ 1,216,447	$ -	$ -	$ 1,216,447
Construction in progress	239,744	2,139,923	-	2,379,667
Total capital assets not being depreciated	1,456,191	2,139,923	-	3,596,114
Capital assets, being depreciated:				
Buildings and improvements	4,856,997	48,465	-	4,905,462
Furniture and equipment	1,756,920	181,396	(90,175)	1,848,141
Vehicles	1,798,880	56,422	-	1,855,302
Infrastructure	20,780,626	931,423	-	21,712,049
Total capital assets being depreciated	29,193,423	1,217,706	(90,175)	30,320,954
Less accumulated depreciation				
Buildings and improvements	(662,754)	(129,497)	-	(792,251)
Furniture and equipment	(1,278,197)	(132,103)	79,117	(1,331,183)
Vehicles	(1,141,527)	(119,322)	-	(1,260,849)
Infrastructure	(3,354,895)	(596,111)	-	(3,951,006)
Total accumulated depreciation	(6,437,373)	(977,033)	79,117	(7,335,289)
Net capital assets being depreciated	22,756,050	240,673	(11,058)	22,985,665
Total Capital Assets	$ 24,212,241	$ 2,380,596	$ (11,058)	$ 26,581,779

Depreciation was charged to governmental functions as follows:

General government	$ 42,522
Public safety	246,779
Public works	647,507
Parks and recreation	40,225
Total Governmental Activities Depreciation Expense	$ 977,033

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	$ 378,257	$ -	$ -	$ 378,257
Construction in progress	211,933	687,855	(4,320)	895,468
Total capital assets not being depreciated	590,190	687,855	(4,320)	1,273,725
Capital assets, being depreciated:				
Buildings and improvements	713,389	-	-	713,389
Infrastructure	21,419,422	37,419	-	21,456,841
Furniture and equipment	1,463,489	273,240	-	1,736,729
Vehicles	76,747	-	(15,259)	61,488
Total capital assets being depreciated	23,673,047	310,659	(15,259)	23,968,447
Less accumulated depreciation				
Buildings and improvements	(263,914)	(32,069)	-	(295,983)
Infrastructure	(4,656,509)	(520,318)	-	(5,176,827)
Furniture and equipment	(895,068)	(85,105)	-	(980,173)
Vehicles	(68,886)	(6,738)	15,259	(60,365)
Total accumulated depreciation	(5,884,377)	(644,230)	15,259	(6,513,348)
Net capital assets being depreciated	17,788,670	(333,571)	-	17,455,099
Total Capital Assets	$ 18,378,860	$ 354,284	$ (4,320)	$ 18,728,824

Depreciation was charged to business-type activities as follows:

Utility	$ 644,230
Total Business-Type Activities Depreciation Expense	$ 644,230

D. Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	$ 1,125,000	$ -	$ (205,000)	$ 920,000	$ 215,000
Certificates of Obligation	11,300,000	-	(580,000)	10,720,000	585,000
Premium	363,928	-	(22,036)	341,892	-
Other liabilities:					
Capital lease	120,148	-	(59,218)	60,930	60,930
Compensated absences	56,174	81,100	(64,852)	72,422	65,181
Total Governmental Activities	$ 12,965,250	$ 81,100	$ (931,106)	$ 12,115,244	$ 926,111
Long-term liabilities due in more than one year				$ 11,189,133	
Business-Type Activities:					
Bonds, notes and other payables:					
General Obligation Bonds	$ 525,000	$ -	$ (100,000)	$ 425,000	$ 105,000
Certificates of Obligation	5,935,000	-	(325,000)	5,610,000	330,000
Premium	153,006	-	(8,817)	144,189	-
Other liabilities:					
Compensated absences	16,978	21,957	(19,600)	19,335	17,401
Total Business-Type Activities	$ 6,629,984	$ 21,957	$ (453,417)	$ 6,198,524	$ 452,401
Long-term liabilities due in more than one year				$ 5,746,123	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. The City intends to retire all of its general long-term liabilities, plus accrued interest, from property taxes and other current revenues from the debt service fund as has been done in prior years. The business-type long-term debt will be repaid, plus accrued interest, from operating revenues of the water and sewer fund. The general fund has typically been used to liquidate the liability for compensated absences for governmental activities.

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2007 General obligation refunding bonds	3.76%	$ 1,790,000	$ 920,000
2007 Certificates of obligation	4.25%	2,500,000	860,000
2011 Certificates of obligation	3.60%	3,500,000	2,605,000
2015 Certificates of obligation	3.00%	2,000,000	1,625,000
2017 Certificates of obligation	3.00%	5,855,000	5,630,000
Total Governmental Activities		15,645,000	11,640,000
Business-type Activities:			
2007 General obligation refunding bonds	3.76%	$ 1,455,000	$ 425,000
2007 Certificates of obligation	4.25%	2,500,000	1,115,000
2011 Certificates of obligation	3.60%	2,250,000	1,685,000
2017 Certificates of obligation	3.00%	2,920,000	2,810,000
Total Business-Type Activities		$ 9,125,000	$ 6,035,000
Total Long-Term Debt			
2007 General obligation refunding bonds	3.76%	$ 3,245,000	$ 1,345,000
2007 Certificates of obligation	4.25%	5,000,000	1,975,000
2011 Certificates of obligation	3.60%	5,750,000	4,290,000
2015 Certificates of obligation	3.00%	2,000,000	1,625,000
2017 Certificates of obligation	3.00%	8,775,000	8,440,000
Total		$ 24,770,000	$ 17,675,000

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Governmental Activities

Year ending	General Obligation Bonds		Certificates of Obligation	
September 30,	Principal	Interest	Principal	Interest
2019	$ 215,000	$ 30,550	$ 585,000	$ 341,038
2020	225,000	22,278	600,000	322,713
2021	235,000	13,630	610,000	303,438
2022	245,000	4,606	635,000	283,638
2023	-	-	660,000	262,575
2024	-	-	680,000	239,825
2025	-	-	700,000	215,925
2026	-	-	720,000	191,350
2027	-	-	745,000	166,025
2028	-	-	670,000	141,975
2029	-	-	690,000	119,275
2030	-	-	715,000	95,800
2031 & After	-	-	2,710,000	271,725
Total	$ 920,000	$ 71,064	$ 10,720,000	$ 2,955,300

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Business-Type Activities

Year ending	General Obligation Bonds		Certificates of Obligation	
September 30,	Principal	Interest	Principal	Interest
2019	$ 105,000	$ 14,006	$ 330,000	$ 188,513
2020	110,000	9,964	340,000	176,963
2021	105,000	5,922	360,000	164,931
2022	105,000	1,974	355,000	152,644
2023	-	-	365,000	139,994
2024	-	-	375,000	126,444
2025	-	-	385,000	112,256
2026	-	-	400,000	97,619
2027	-	-	405,000	82,606
2028	-	-	290,000	69,975
2029	-	-	300,000	59,650
2030	-	-	315,000	48,875
2031	-	-	1,390,000	136,125
Total	$ 425,000	$ 31,866	$ 5,610,000	$ 1,556,594

The annual requirements to amortize governmental capital leases outstanding at year ending were as follows:

Capital Leases

Year ending	Governmental Activities		
September 30,	Principal	Interest	Total
2019	$ 60,930	$ 1,758	$ 62,688
	$ 60,930	$ 1,758	$ 62,688

The City entered into a finance contract for the purchase an ambulance and equipment on November 7, 2013. The initial principal balance of the lease was $347,712 with an interest rate of 2.9%, payable in annual installments of $62,688 over 6 years. The asset under lease has a book value of $131,043 as of year end.

F. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2007 general obligation refunding and improvement bonds have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding certificates of obligation. End of year balances totaled $22,196 for governmental activities and $15,926 for business-type activities. Current year amortization expense for governmental activities totaled $7,400. For business-type activities amortization expense was $5,309.

G. Interfund Transactions

Transfers between the primary government funds during the 2018 year were as follows:

Transfer Out	Transfer In		Amount
Capital Improvement	General	$	101,190
Lucas Fire District	General		342,912
Utility Fund	General		274,498
	Total	$	718,600

Interfund balances resulted from the timing difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be paid in the subsequent year.

H. Restricted Net Position

The City records restricted net position to indicate that a portion is legally restricted for a specific future use.

The following is a list of restricted fund balance/net position of the City:

	Governmental Funds	Business-type Activities
Restricted for:		
Impact fees	$ 1,572,405	$ -
Pensions	233,592	-
Debt service	969,611	435,000
* Municipal court	62,899	-
* Fire protection	67,868	-
* Cable fees	25,318	-
Capital improvements	6,277,086	120,979
Street Maintenance (Brockdale)	245,054	-
Capital outlay (Other)	150,000	-
Capital outlay (Ambulance)	100,000	-
Capital outlay (Playground E&P)	1,132	-
Total	$ 9,704,965	$ 555,979

* Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

GASB 62 defines probability of loss contingencies as the following:

Probable. The future event or events are likely to occur.
Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
Remote. The chance of the future event or events occurring is slight.

Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

At year end there was no litigation that was required to be recorded.

C. Pension Plans

<u>Texas Municipal Retirement Systems</u>

1. Plan Description

The City of Lucas participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

2. Benefits Provided

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

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

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

	Plan Year 2017	Plan Year 2016
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2017 and 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	13	12
Inactive employees entitled to but not yet receiving benefits	23	23
Active employees	37	30
Total	73	65

3. <u>Contributions</u>

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

Employees for the City of Lucas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Lucas were 13.75% and 13.43% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were $306,720, and were equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions:

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in 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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
$ 1,214,258	$ 585,300	$ 80,151

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/16	$ 3,297,962	$ 2,546,341	$ 751,621
Changes for the year:			
Service Cost	372,249	-	372,249
Interest	231,198	-	231,198
Difference between expected and actual experience	9,721	-	9,721
Changes of assumptions	-	-	-
Contributions – employer	-	283,883	(283,883)
Contributions – employee	-	144,523	(144,523)
Net investment income	-	353,005	(353,005)
Benefit payments, including refunds of emp. contributions	(117,869)	(117,869)	-
Administrative expense	-	(1,829)	1,829
Other changes	-	(93)	93
Net changes	495,299	661,620	(166,321)
Balance at 12/31/17	$ 3,793,261	$ 3,207,961	$ 585,300

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2018, the City recognized pension expense of $305,669.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to TMRS pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 22,401	$ -
Changes in actuarial assumptions	13,183	-
Difference between projected and investment earnings	-	92,771
Contributions subsequent to the measurement date	222,492	-
Total	$ 258,076	$ 92,771

The City reported $222,492 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	$ 12,409
2019	(3,689)
2020	(31,465)
2021	(34,442)
2021	-
Thereafter	-
Total	$ (57,187)

Other Postemployment Benefits

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

The City offers supplemental death to:	Plan Year 2017	Plan Year 2016
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

Employees covered by benefit terms

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	5
Inactive employees entitled to but not yet receiving benefits	4
Active employees	37
Total	46

The City's contributions to the TMRS SDBF for the years ended 2018, 2017 and 2016 were $166, $0 and $0, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2016	0.00%	0.00%	100.0%
2017	0.00%	0.00%	100.0%
2018	0.01%	0.01%	100.0%

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2017, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

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
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.31%
Retirees' share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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

Discount Rate:

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

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City'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 (2.31%)	Current Single Rate Assumption 3.31%	1% Increase (4.31%)
$ 62,546	$ 50,665	$ 41,593

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/16	$ 40,716
Changes for the year:	
Service Cost	3,716
Interest	1,609
Changes of assumptions	4,624
Benefit payments	-
Net changes	9,949
Balance at 12/31/17	$ 50,665

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

For the year ended September 30, 2018, the City recognized OPEB expense of $5,872.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	$ 4,077
Contributions subsequent to measurement date	166
Total	$ 4,243

The City reported $166 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019.

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2018	$	547
2019		547
2020		547
2021		547
2022		547
Thereafter		1,342
	$	4,077

Texas Emergency Services Retirement System

1. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The System issues a stand-alone financial report that is available to the public at www.tesrs.org.

Of the nine-member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2018, there were 238 fire and/or emergency services member departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

At August 31, 2018, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,533
Terminated Participants Entitled to Benefits But Not Yet Receiving Them	1,927
Active Participants (Vested and Nonvested)	3,927
Total	9,387

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

2. <u>Funding Policy</u>

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is $36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities. According to the state law governing the System, the state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017. Based on the August 31, 2018 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

3. <u>Contributions</u>

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2018, total contributions (dues and prior service) of $4,098,835 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated $1,329,224 for the fiscal year ending August 31, 2018.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in Section I(B)(1). The most recently completed biennial actuarial valuation as of August 31, 2018 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state.

The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately $725,000 each year to pay for part of the System's administrative expenses.

Valuation Date	**August 31, 2014**	**August 31, 2016**	**August 31, 2018**
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar, open	Level dollar, open	Level dollar, open
Amortization	30 years	30 years	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial Assumptions:			
Investment Rate of Return *	7.75% per year, net of investment expenses	7.75% per year, net of investment expenses	7.75% per year, net of investment expenses
Projected Salary Increases *	N/A	N/A	N/A
* Includes Inflation at	3.50%	3.50%	3.00%
Cost-of-Living Adjustments	None	None	None

The target allocation for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities:		
Large cap domestic	32%	5.81%
Small cap domestic	15%	5.92%
Developed international	15%	6.21%
Emerging markets	5%	7.18%
Master limited partnership	5%	7.61%
Real Estate	5%	4.46%
Fixed income	23%	1.61%
Cash	0%	0%
Total	100.0%	5.01%

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. 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.

1. **Changes in the Net Pension Liability:**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 8/31/17	$ 251,457	$ 204,715	$ 46,742
Changes for the year:			
Service Cost	3,103	-	3,103
Interest (on the Total Pension Liab.)	19,288	-	19,288
Change in benefit terms	5,502	-	5,502
Difference between expected and actual experience	(176)	-	(176)
Contributions – members	-	7,982	(7,982)
Contributions – state	-	2,589	(2,589)
Net investment income	-	22,033	(22,033)
Benefit payments, including refunds of emp. contributions	(11,372)	(11,372)	-
Administrative expense	-	(308)	308
Net changes	16,345	20,924	(4,579)
Balance at 8/31/18	$ 267,802	$ 225,639	$ 42,163

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
$ 83,791	$ 42,163	$ 14,086

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2018, the City recognized pension expense $13,366.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Outflows of Resources	Deferred Inflows of Resources
Investment earnings	$ -	$ 2,331
Changes in actuarial assumptions	158	-
Proportion changes	-	30,505
Projected vs. actual experience	-	110
Total	$ 158	$ 32,946

Other amounts reported as deferred outflows related to the TESRS pension will be recognized in pension expense as follows:

Year ended August 31:	
2019	$ 672
2020	(3,557)
2021	(4,270)
2022	(3,308)
2023	(2,045)
Thereafter	(20,280)
	$ (32,788)

Length of Service Awards Program (LOSAP)

1. Plan Description

The City of Lucas participates in a Volunteer Firefighter Length of Service Award (LOSAP) Pension Plan. The plan was effective on July 1, 2015. Members eligible to enter the Plan must be an active Member of the City's Volunteer Fire Department for at least 12 months and be a minimum of 18 years of Age. Participants are eligible to begin receiving benefits after reaching the age of 65 and completing at least one year of active service. The City's LOSAP is considered single-employer defined benefit pension plan and subject to GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets that Not within the Scope of GASB Statement 68*. GASB 68 applies to pension plans that are administered through trusts in which contributions are irrevocable, trust assets are dedicated to providing pensions to plan members, and trust assets are legally protected from creditors. GASB 73 applies to pension plans (both defined benefit and defined contribution) that either do not have any dedicated assets associated with them or have assets that are not in a trust meeting the requirements specified above. The City's dedicated assets for the LOSAP are not accumulated in a trust and would be subject to creditors.

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

2. Benefits Provided

FORMULA FOR MONTHLY BENEFIT PAID AT ENTITLEMENT AGE

(a) $15.00 multiplied by Years of Service completed before the Effective Date of the Plan, Years of Service completed prior to the Effective Date of the Plan not to exceed 5.

(b) $15.00 multiplied by Years of Service completed after the Effective Date of the Plan.

(c) Total Years of Service under (a) and (b) not to exceed 20 years.
(d) $300.00 is the maximum monthly benefit that may be accumulated in this Plan.

PRE ENTITLEMENT DEATH BENEFIT

If an insured Participant dies prior to Entitlement Age, his designated Beneficiary shall receive a single lump sum equal to the greater of $10,000 or the Actuarial Equivalent value of the Participant's Accrued Benefit (as of the most recent determination date).

Upon death, an uninsured Participant's (active or terminated-vested) designated Beneficiary shall receive the Participant's Accrued Benefit (as of the most recent determination date) for a period of 10 years (120 payments).

Any Member who is deemed Disabled under the terms of this Plan prior to attainment of Entitlement Age shall be entitled to receive a lump sum distribution of the Actuarial Equivalent value of his Accrued Benefit as of the most recent determination date. This lump sum shall be considered total settlement of all benefits previously earned under the terms of this Plan.

VESTING SCHEDULE

A Participant who severs service with the City as a result of attainment of entitlement age or disability shall have a fully vested and non-forfeitable right to his accrued benefit as of the most recent determination date. Participants severing service for any other reason shall have a vested right to the accrued benefit in accordance with the following schedule:

Year(s) of Service	Vested Percentage
0-2	0%

3	60%
4	80%
5 or more	100%

Employees Covered by Benefit Terms

At the July 1, 2017 valuation date, the following employees were covered by the benefit terms:

	2017
Active members	24
Vested-Terminated Members	6
Retired Beneficiaries	1
Total	31

3. <u>Contributions</u>

Employees do not contribute to the plan. The contribution rate for the City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The City's contributions to the LOSAP for the year ended September 30, 2018, were $19,369, and were more than the required contributions.

As of September 30, 2018, the City has an investment balance of $233,592, designated for LOSAP benefit payments. This asset is not within an irrevocable trust and there is not considered part of the net pension liability.

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

The City's Net Pension Liability (NPL) was measured as of June 30, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as July 1, 2017.

Actuarial assumptions:

The Total Pension Liability measured as of June 30, 2018 was determined using the following actuarial assumptions:

Inflation	0% per year
Overall payroll growth	not applicable
Investment Rate of Return	3.61%, net of pension plan investment expense, including inflation
Mortality	No pre-retirement mortality; post retirement RP2000MF with improvement
Retirement	First eligible
Turnover	T5
Disability	None

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Discount Rate:

The calculations of the pension liability assume that the plan remains unfunded and uses a discount rate of 3.61% which is based on the 20-year AA general obligation bond rate as of June 30, 2018.

Any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68, should not be considered pension plan assets. As such, the Plan remains unfunded and uses is required to use a discount rate with a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 3.61%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.61%) or 1-percentage-point higher (4.61%) than the current rate:

1% Decrease 2.61%	Current Rate 3.61%	1% Increase 4.61%
$ 237,137	$ 221,634	$ 205,787

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 7/1/17	$ 234,097	$ -	$ 234,097
Changes for the year:			
Service Cost	30,982	-	30,982
Interest	8,432	-	8,432
Difference between expected and actual experience	(41,351)	-	(41,351)
Changes of assumptions	(2,005)	-	(2,005)
Benefit payments, including refunds of emp. contributions	(8,521)	-	(8,521)
Net changes	(12,463)	-	(12,463)
Balance at 6/30/18	$ 221,634	$ -	$ 221,634

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

For the year ended September 30, 2018, the City recognized pension expense of $33,704. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to LOSAP pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 37,217
Differences between actuarial assumption changes	-	12,795
Contributions subsequent to the measurement date	16,133	-
Total	$ 16,133	$ 50,012

The City reported $16,311 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2019	$	(5,710)
2020		(5,710)
2021		(5,710)
2022		(5,710)
2023		(5,710)
Thereafter		(21,462)
Total	$	(50,012)

D. Restatement

Due to the implementation of GASB No. 75, the City restated its beginning net position within governmental activities and business-type activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. This adjustment was recorded at the fund level for proprietary funds only, and recorded at the government-wide level for both governmental and business-type activities.

The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	Business-Type Activities
Prior year ending net position/ fund balance as reported	$ 28,907,375	$ 20,852,891
Impact of implementation of GASB 75	(30,937)	(9,779)
Restated beginning net position/fund balance	$ 28,876,438	$ 20,843,112

E. Subsequent Events

There were no material subsequent events through February 15, 2019, the date the financial statements were issued.

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Financial Advisory Services
Provided By:

SAMCO Capital