OFFICIAL STATEMENT
Dated August 20, 2020

NEW ISSUE – Book-Entry-Only

Ratings:
Moody's: Aaa
S&P: AAA
(See "OTHER PERTINENT INFORMATION – Ratings" herein)

Interest on the Certificates (defined below) is not excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS" herein.

CITY OF McKINNEY, TEXAS
(Collin County)

$8,085,000
Tax & Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2020

Dated Date: August 15, 2020
Interest Accrual Date: Date of Delivery **Due: August 15, As shown on next page**

The City of McKinney, Texas (the "City" or "Issuer") $8,085,000 Tax & Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2020 (the "Certificates") are being issued pursuant to the Constitution and laws of the State of Texas, including Subchapter C of Chapter 271, Texas Local Government Code, as amended, the City's Home-Rule Charter, and an ordinance authorizing their issuance and sale (the "Certificate Ordinance") adopted by the City Council of the City (the "City Council") on August 18, 2020.

In the Certificate Ordinance, the City Council delegated to a designated officer of the City (a "Pricing Officer"), the authority to effect the sale of the Certificates, and to establish certain terms related to the issuance and sale of the Certificates. The terms of sale are included in the "Pricing Certificate" relating to the Certificates which was executed by a Pricing Officer and completed the sale of the Certificates (the Certificate Ordinance as supplemented by the Pricing Certificate, is referred to as the "Ordinance"). (See "THE CERTIFICATES – Authority for Issuance" herein.)

The Certificates when issued, will be direct obligations of the City, payable as to principal and interest from a combination of (i) an ad valorem tax levied annually, within the limits prescribed by law, against all taxable property in the City and (ii) a limited pledge of net revenues ($1,000) of the City's Airport System, as provided in the Ordinance. (See "SECURITY" herein.)

Interest on the Certificates accrues from the Date of Delivery (defined herein). Interest on the Certificates will be payable on February 15 and August 15 of each year, commencing February 15, 2021, until 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 Certificates in book-entry only form 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 principal amounts of $5,000 or any integral multiple thereof within a maturity. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of the securities 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 U.S. Bank National Association, Dallas, Texas, as the initial Paying Agent/Registrar, to DTC, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used to (i) to make various permanent public improvements of the Airport System for the City, and (ii) pay the costs related to the issuance of the Certificates. (See "PLAN OF FINANCING – Sources and Uses of Funds" herein.)

Maturity Schedule on Inside Cover Page

The Certificates are offered for delivery when, as and if issued, and received by the Purchasers, (as defined herein) subject to the approval of legality by the Attorney General of the State of Texas and the opinion of Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel (see APPENDIX C, "Form of Legal Opinion of Bond Counsel").

The Certificates are expected to be available for initial delivery through the services of DTC on or about September 16, 2020 (the "Date of Delivery").

$ 8,085,000
Tax & Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2020

MATURITY SCHEDULE, INTEREST RATES, YIELDS, AND CUSIP[(1)] NUMBERS

Base CUSIP [(1)] No.: 58178C

Maturity (August 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix No.
2021	$350,000	3.00%	0.20%	CC9
2022	345,000	3.00%	0.25%	CD7
2023	355,000	3.00%	0.30%	CE5
2024	365,000	3.00%	0.40%	CF2
2025	375,000	1.00%	0.55%	CG0
2026	380,000	1.00%	0.70%	CH8
2027	385,000	1.00%	0.90%	CJ4
2028	390,000	1.00%	1.05%	CK1
2029	395,000	1.20%	1.20%	CL9
2030	395,000	1.35%	1.35%	CM7
2031	405,000	1.40%	1.40%	CN5
2032	410,000	1.50%	1.50%	CP0
2033	415,000	1.60%	1.60%	CQ8
2034	420,000	1.70%	1.70%	CR6
2035	430,000	1.80%	1.80%	CS4
2036	435,000	1.95%	1.95%	CT2
2037	445,000	2.00%	2.05%	CU9
2038	455,000	2.00%	2.10%	CV7
2039	465,000	2.00%	2.12%	CW5
2040	470,000	2.00%	2.15%	CX3

(Interest to accrue from the Date of Delivery)

The City reserves the right to redeem the Certificates maturing on and after August 15, 2030 in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest as further described herein. (See "THE CERTIFICATES – Redemption Provisions" herein.).

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(1) CUSIP numbers are included solely for the convenience of owners 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 Purchasers shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF McKINNEY, TEXAS

Elected Officials

City Council	Occupation	Length of Service	Term Expires
George C. Fuller, Mayor	Builder	3 Years	2021
Rick Franklin, Council Member	Real Estate Broker	1 Year	2023
Rainey Rogers, Mayor Pro Tem	Wealth Manager	5 Years	2023
Frederick Frazier, Council Member	Police Officer	1 Year	2023
Scott Elliott, Council Member	Sales/Chief Operating Officer/Investor	3 Years	2021
Charlie Philips, Council Member	Attorney	3 Years	2021
La'Shadion Shemwell, Council Member	Inspector	3 Years	2021

Appointed Officials

Name	Position	Length of Service to McKinney	Governmental Service
Paul Grimes	City Manager	4 Years	22 Years
Kim Flom	Assistant City Manager	1 Year	15 Years
Barry Shelton	Assistant City Manager	15 Years	21 Years
Steve Tilton	Assistant City Manager	3 Years	20 Years
Mark Holloway	Chief Financial Officer	7 Years	19 Years
Empress Drane	City Secretary	15 Years	17 Years

Consultants and Advisors

City Attorneys	Brown & Hofmeister L.L.P.
Bond Counsel	Norton Rose Fulbright US LLP
Financial Advisory	Estrada Hinojosa & Company, Inc.

For additional information contact:

Mr. Mark Holloway
Chief Financial Officer
City of McKinney
222 N. Tennessee
McKinney, TX 75069
(972) 547-7536

Mr. Dave Gordon
Senior Managing Director
Estrada Hinojosa & Company, Inc.
1717 Main Street
Suite 4700, LB 47
Dallas, TX 75201
(214) 658-1670

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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 or the Purchasers.

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

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

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 qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof.

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

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, ITS FINANCIAL ADVISOR, OR THE PURCHASERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all appendices hereto, to obtain information essential to making an informed investment decision.

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SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data on this page 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 data page from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer.....	The City of McKinney, Texas (the "City" or "Issuer"), located in Collin County, is a political subdivision of the State of Texas and operates under a Mayor-Council-Manager form of government with a City Council comprised of seven members, including the Mayor. (See APPENDIX B - "General Information Regarding the City of McKinney and Collin County" herein.)
The Certificates.....	The City of McKinney, Texas $8,085,000 Tax & Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2020 will be issued as serial Certificates maturing on August 15 in each of the years 2021 through 2040.
Authority for Issuance	The Certificates are issued pursuant to the Constitution and laws of the State of Texas, Subchapter C of Chapter 271, Texas Local Government Code, as amended, the City's Home-Rule Charter, and the Certificate Ordinance adopted by the City Council on August 18, 2020. In the Certificate Ordinance, the City Council delegated to a designated officer of the City (a "Pricing Officer"), pursuant to certain provisions of Texas Government Code, Chapter 1371, as amended, the authority to effect the sale of the Certificates and to establish certain terms related to the issuance and sale of the Certificates. The terms of sale are included in the "Pricing Certificate" relating to the Certificates which was executed by a Pricing Officer of which completed the sale of the Certificates (the Certificate Ordinance as supplemented by the Pricing Certificate is referred to as the "Ordinance" are sometimes referred to herein as the "Ordinance"). (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar.....	The initial Paying Agent/Registrar for the Certificates is U.S. Bank National Association, Dallas, Texas.
Security.....	The Certificates when issued, will be direct obligations of the City, payable as to principal and interest from a combination of (i) an ad valorem tax levied annually, within the limits prescribed by law, against all taxable property in the City and (ii) a limited pledge of net revenues ($1,000) of the City's Airport System, as provided in the Certificate Ordinance. (See "SECURITY" herein.)
Redemption.....	The City reserves the right to redeem the Certificates maturing on and after August 15, 2030 in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest as further described herein. (See "THE CERTIFICATES – Redemption Provisions" herein.)
Tax Matters.....	Interest on the Certificates is not excludable from the gross income of the owners thereof for federal income tax purposes. See "TAX MATTERS" herein.
Book-Entry-Only System.....	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York described herein. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Such Book-Entry-Only System may affect the method and timing of payments on the Certificates and the manner in which the Certificates may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Use of Proceeds.....	Proceeds from the sale of the Certificates will be used to (i) to make various permanent public improvements to municipal airport facilities for the City, and (ii) pay the costs related to the issuance of the Certificates. (See "PLAN OF FINANCING – Sources and Uses of Funds" herein.)

Ratings.....	The Certificates have been rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AAA by S&P Global Ratings, a division of S&P Global Inc. ("S&P"). The presently outstanding ad valorem tax debt of the City is rated "Aaa (stable outlook)" by Moody's Investors Service, Inc. and "AAA (stable outlook)" by S&P Global Ratings, a division of S&P Global Inc. (See "OTHER PERTINENT INFORMATION – Ratings" herein.)
Payment Record	The City has never defaulted in the payment of its bonded indebtedness.
Date of Delivery	It is expected that the Certificates will be available for delivery through DTC on or about September 16, 2020.
Legality.....	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas.

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OFFICIAL STATEMENT

Relating to

CITY OF McKINNEY, TEXAS
(Collin County)

$8,085,000
Tax & Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2020

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by the City of McKinney, Texas $8,085,000 Tax & Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2020 (the "Certificates"). The Certificates are issued pursuant to the Constitution and laws of the State of Texas, including Subchapter C of Chapter 271, Texas Local Government Code, as amended and Chapter 1371, Texas Government Code, as amended, the City's Home-Rule Charter, and an ordinance authorizing their issuance and sale (the "Certificate Ordinance ") adopted by the City Council of the City (the "City Council") on August 18, 2020. In the Bond Ordinance, the City Council delegated to a designated officer of the City (a "Pricing Officer"), pursuant to certain provisions of Texas Government Code, Chapter 1371, as amended, the authority to effect the sale of the Certificates, and to establish certain terms related to the issuance and sale of the Certificates. The terms of sale are included in the "Pricing Certificate" relating to the Certificates which was executed by a Pricing Officer and which completed the sale of the Certificates (the Certificate Ordinance, and the Pricing Certificate referred to as, the "Ordinance"). (See "THE CERTIFICATES – Authority for Issuance" herein.)

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

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

PLAN OF FINANCING

Purpose of Financing

Proceeds from the sale of the Certificates will be used to (i) to make various permanent public improvements of Airport System for the City, and (ii) pay the costs related to the issuance of the Certificates.

Sources and Uses of Funds

The proceeds of the Certificates will be applied substantially as follows:

Sources:	
Par Amount of the Certificates	$ 8,085,000.00
Net Premium	754.31
Total Sources of Funds	$ 8,085,754.31
Uses:	
Deposit to Project Fund	$ 8,000,000.00
Costs of Issuance	85,754.31
Total Uses of Funds	$ 8,085,754.31

THE CERTIFICATES

General

The Certificates are dated August 15, 2020, but interest will accrue on the Certificates from the date of their initial delivery, anticipated to be September 16, 2020 (the "Date of Delivery"). The Certificates are stated to mature on August 15 in the years and in the principal amounts set forth on the inside cover page hereof with respect to the Certificates. The Certificates shall bear interest on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Certificates will be payable on February 15 and August 15 of each year, commencing February 15, 2021 until maturity or prior redemption. The definitive Certificates will be issued as fully registered Certificates in book-entry only form 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 principal amounts of $5,000 or any integral multiple thereof within a maturity. Purchasers of 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 U.S. Bank National Association, Dallas, Texas, as the initial Paying Agent/Registrar, to DTC, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.) In the event the Book-Entry-Only System should be discontinued, interest will be paid by check mailed 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 upon prior redemption upon presentation to the Paying Agent/Registrar at its designated office.

Authority for Issuance

The Issuer is a political subdivision of the State of Texas and operates under the statutes and the Constitution of the State of Texas and its home rule charter. The Certificates are authorized and issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, the City's Home-Rule Charter, and an ordinance authorizing their issuance and sale (the "Certificate Ordinance") adopted by the City Council of the City (the "City Council") on August 18, 2020. In the Certificate Ordinance, the City Council delegated to a designated officer of the City (a "Pricing Officer"), pursuant to certain provisions of Texas Government Code, Chapter 1371, as amended, the authority to effect the sale of the Certificates, and to establish certain terms related to the issuance and sale of the Certificates. The terms of sale are included in the "Pricing Certificate" relating to the Certificates which was executed by a Pricing Officer and which completed the sale of the Certificates.

Redemption Provisions

The City reserves the right to redeem the Certificates maturing on and after August 15, 2030 in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the redemption price of par plus accrued interest.

If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected at random and by lot by the Paying Agent/Registrar.

At least 30 days prior to the date fixed for any such redemption of the Certificates, the Issuer shall cause a written notice of such redemption to be deposited in the United States mail, first class postage prepaid, addressed to each registered owner of a Bond to be redeemed at the address shown on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Certificates or portions thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and, provided moneys sufficient for the payment of such Certificates (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar, they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption may, at the option of the City, be conditional upon the receipt of

such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption and if sufficient moneys are not received or such prerequisites are not satisfied, such notice shall be of no force and effect, the City shall not redeem the Certificates, and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

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 for the Certificates, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action with respect to the Certificates 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, 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 redemption of such Certificates from the beneficial owners. Any such selection of Certificates being 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.)

Payment Record

The City has never defaulted in the payment of its bonded indebtedness.

Legality

The Certificates are offered when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. The legal opinion of Bond Counsel will accompany the global certificates to be deposited with DTC or will be printed on the Certificates should the Book-Entry-Only System be discontinued. The form of the legal opinion of Bond Counsel appears in APPENDIX C attached hereto.

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or an authorized escrow agent, in trust (1) money in an amount sufficient to make such payment or (2) Government Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money together with moneys deposited therewith, if any, to make such payment. The Ordinance provides that "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of an agency or instrumentality of the United States of America, including Certificates that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (C) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (D) any other then authorized securities or obligations that may be used to defease obligations such as the Certificates under the then applicable laws of the State of Texas. There is no assurance that the current law will not be changed in a manner that would permit investments other than those described above to be made with amounts deposited to defease the obligations. Because the ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Government Securities will be maintained at any particular rating category.

Amendments

The City 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 City may, with the written consent of the holders of a majority in aggregate principal amount of the then outstanding Certificates, 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 , no such amendment, addition, or rescission may (1) extend the time or times of

payment of the principal and interest on the Certificates, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of its payment, or (2) give any preference to any Certificates over any other Certificates, or (3) reduce the aggregate principal amount of the Certificates required for consent to any amendment, addition, or waiver.

SECURITY

The Certificates when issued, will be direct obligations of the City, payable as to principal and interest from a combination of (i) an ad valorem tax levied annually, within the limits prescribed by law, against all taxable property in the City and (ii) a limited pledge of net revenues ($1,000) of the City's Airport System, as provided in the Ordinance.

Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a direct and continuing annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt, such as the Certificates, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City authorizes the constitutionally authorized maximum tax rate of $2.50 per $100 Taxable Assessed Valuation. Administratively, the Attorney General of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based upon a 90% collection factor.

REGISTERED OWNERS' REMEDIES

If the City defaults in the payment of principal or interest on the Certificates when due, or if it fails to make payments into any fund or funds created in the Bond Ordinance, or defaults in the observation or performance of any other covenants, conditions or Certificates 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 Certificates are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and 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 Certificates do not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Certificates, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its Certificates, but in connection with the issuance of the Certificates, the City has not waived sovereign immunity pursuant to Chapter 1371. As a result, holders of the Certificates may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("Wasson") that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state.

As noted above, each Bond Ordinance provides that holders of the Certificates may exercise the remedy of mandamus to enforce the Certificates of the City under each Bond Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in either *Tooke* or *Wasson*, and it is unclear whether *Tooke* or *Wasson* 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 holders of the Certificates of an entity that has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar of the Certificates is U.S. Bank National Association, Dallas, Texas. In each Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar for the Certificates. 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 commercial bank, a trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for any of the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of $5,000 for each series and for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. In the event the Book-Entry-Only System should be discontinued, interest will be paid by the Paying Agent/Registrar either (i) by check sent United States mail, first class postage prepaid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (defined below) to the last known address as it appears on the Paying Agent/Registrar's registration books, or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or upon prior redemption upon presentation to the Paying Agent/Registrar at the Designated Payment/Transfer Office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Certificates, all payments will be made as described under "Book-Entry-Only System" below. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due. Currently, the Designated Payment/Transfer Office of the Paying Agent/Registrar is its St. Paul, Minnesota office.

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Bond on any interest payment date means the last business day of the month next preceding such interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See "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 Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Future Registration

The Certificates are initially to be issued utilizing DTC's Book-Entry-Only System. In the event such Book-Entry-Only System for the Certificates should be discontinued, printed certificates will be issued to the registered owners of the Certificates and thereafter such 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 Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the Designated Payment/Transfer Office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid, to the new registered owner. 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 Certificates surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be initially utilized in regard to ownership and transferability of the Certificates.)

Limitation on Transfer of Certificates

Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Certificate called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption of such Certificate ; provided, however, such limitation on transferability shall not be applicable to an exchange by the holder of the unredeemed balance of a Certificate called for redemption in part.

Replacement Certificates

In the Ordinance, provisions are made for the replacement of mutilated, destroyed, lost, or stolen Certificates. In the case of a mutilated Certificate , a new Certificate in the same principal amount will be delivered only upon surrender to and cancellation of the mutilated Certificate by the Paying Agent/Registrar. In the case of a destroyed, lost or stolen Certificate , a new Certificate will be delivered only upon the receipt by the Issuer and Paying Agent/Registrar of (i) satisfactory evidence of destruction, loss, or theft, and the ownership thereof, and (ii) the receipt of security or indemnity as may be required by either or both of them to hold them harmless. The person requesting the authentication and delivery of a new Certificate must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each stated maturity of the Certificates in the aggregate principal amount of such maturity, 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 issues, corporate and municipal debt issues, and money market instrument (from over 100

countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participates and Indirect Participants are referred to herein as the "Participants". DTC has a rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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, 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 and 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 Participants.

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

DTC may discontinue providing its services as securities depository with respect to one or both series of the Certificates, at any time by giving reasonable notice to the Issuer or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, printed certificates for the Certificates are required to be furnished 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, printed certificates will be furnished and delivered as provided in the Ordinance. (See "REGISTRATION, TRANSFER AND EXCHANGE" herein.)

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.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE ISSUER

General

Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) Certificates, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct Certificates of the State or its agencies and instrumentalities; (3) collateralized mortgage Certificates 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 Certificates, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including Certificates that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) Certificates 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) Certificates issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by Certificates described in the clauses (1) through (8) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and Certificates described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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) Certificates that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in

Certificates described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term Certificates of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (13) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in Certificates described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by Certificates, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited Certificates described in the next succeeding paragraph.

The Issuer may invest in such Certificates directly or through government investment pools that invest solely in such Certificates provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. 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) Certificates whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) Certificates whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage Certificates that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage Certificates the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include: (1) a list of authorized investments for Issuer funds, (2) the maximum allowable stated maturity of any individual investment, (3) the maximum average dollar-weighted maturity allowed for pooled fund groups, (4) methods to monitor the market price of investments acquired by public funds, (5) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, (6) procedures to monitor rating changes in investments acquired with public funds, and for the liquidation of such investments consistent with the PFIA. 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 Texas 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 Issuer's investment officers 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, the ending market value, and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest Issuer funds without express written authority from the City Council.

Under Texas law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies and adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and record any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance, or resolution; (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the Issuer to disclose the relationship and file a statement with the Texas Ethics Commission and the Issuer, (3) require the registered principal of firms seeking to sell securities to 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 activities 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 Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the Issuer's investment policy, (5) 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, (6) restrict the investment in mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and further restrict the investment in no-load mutual funds of any portion of bond proceeds, reserves and funds held for debt service and 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; (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer and (9) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Current Investments

As of May 31, 2020, the City had approximately $ 474,221,945 in municipal investment pools, $ 52,460,000 in U.S. Government and Agency Securities, $ 10,675,000 in municipal Certificates, $ 500,000 in certificates of deposit, and $ 11,037,118 in an interest bearing account at a local bank. The market value of such investments (as determined by the Issuer by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the 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.

PROPERTY TAX INFORMATON

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Property Tax Code and Countywide Appraisal District

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district (the "Appraisal District") and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The City is a member of the Collin Central Appraisal District. Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a 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 homestead to the lesser of (1) the market value of the property for the most recent tax year that market value was determined by the Appraisal District; or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See "APPENDIX A – FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT – Assessed Valuation" for the reduction in taxable valuation attributable to the Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, 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 as both agricultural and open-space land. See "APPENDIX A – FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT – Assessed Valuation" for the reduction in taxable valuation attributable to valuation by productivity value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board, whose members are appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State Mandated Homestead Exemptions

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "APPENDIX A – FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

The governing body of a taxing unit, such as the City, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000); and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See "APPENDIX A – FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT – Assessed Valuation" for the reduction in taxable valuation attributable to local option homestead exemptions.

Local Option Freeze for the Elderly and Disabled

The governing body of a county, city or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "APPENDIX A – FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT – Assessed Valuation" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Non-business Personal Property

Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Freeport Exemptions

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See "APPENDIX A – FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Economic Development

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries, and other overlapping taxing units 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 as specified in Chapter 311, Texas Government Code, as stated. 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 is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit 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 Certificates of such taxing units.

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "APPENDIX A – ASSESSED VALUATION" for the reduction in taxable valuation attributable to tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, see "PROPERTY TAX INFORMATION – City Application of Property Tax Code" herein.

The City is authorized, pursuant to Texas Local Government Code, Chapter, 380, 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 Certificates secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

Historic Neighborhood Improvement Zones

The City is authorized to create historic neighborhood improvement zones to promote the rehabilitation and improvement of historic housing in the City. Homeowners living in the zone may apply to receive a tax exemption on the value of qualifying improvements made to homes located in the zone. Such exemption could be for a period of up to 15 years.

Issuer and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the Issuer, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the Issuer may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.
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 (see "PROPERTY TAX INFORMATION – Public Hearing and Maintenance and Operations Tax Rate Limitations"). The Property Tax Code also establishes a procedure for providing 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.

Levy and Collection of Taxes

The Issuer is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. 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. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. The Issuer does not permit split payments, and discounts are not allowed.

Issuer's Right In the Event of Tax Delinquencies

Taxes levied by the Issuer are a personal obligation of the owner of the property. 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 each 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, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

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.

Public Hearing and Maintenance and Operation Tax Rate Limitations

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.

"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).
"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.

A city must annually calculate its voter-approval tax rate and no-new-revenue tax rate 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 Certificates, 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.

Debt Tax Rate Limitations

All taxable property within the Issuer is subject to the assessment, levy and collection by the Issuer of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the Issuer, and limits its maximum ad valorem tax rate to $2.50 per $100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the City 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 City 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 county 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.

City Application of Property Tax Code

The City does not grant a local option exemption to the market value of all residence homesteads.

The City grants a local option exemption equal to $65,000 of the market value of the residence homesteads of persons 65 years of age or older.

The City has not authorized a local option freeze on taxes for persons 65 years of age or older or disabled persons.

The City does not tax non-business personal property.

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

The City has taken action to tax Goods-in-Transit.

The City has created two TIRZs in which the taxes levied against the incremental tax base growth are captured and applied to fund infrastructure costs in each TIRZ. For Fiscal Year 2018, there is approximately $192,870 million of "captured" appraised value in the TIRZs, representing $1,041,882 of tax levy that is dedicated to the construction of infrastructure improvements in the TIRZs.

The City has entered into tax abatement agreements with entities in the City for economic development purposes in accordance with its tax abatement policy described below under "PROPERTY TAX INFORMATION – Tax Abatement Agreements". See "APPENDIX A – FINANCIAL INFORMATION PURTAINING TO GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to tax abatement agreements.

The City has created an historic neighborhood improvement zone to promote the rehabilitation and improvement of historic housing in the City. Homeowners living in the zone may apply to receive a tax exemption on the value of qualifying improvements made to homes located in the zone. Such exemption could be for a period of up to 15 years. See "APPENDIX A – FINANCIAL INFORMATION PURTAINING TO GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to tax exemptions for historic home improvements in the zone.

Tax Abatement Agreements

The City has adopted a tax abatement policy as a stimulus for economic development within the City. Each request for abatement is considered individually by the Joint Committee on Tax Abatement which consists of members from all taxing entities within the community. Only those businesses meeting certain subjective and objective criteria are awarded abatements. Subjective criteria include the number and type of jobs to be created, the fiscal impact on the community, relocation of employees, and the environmental impact on the community. The value and term of the abatement will be determined on a case by case basis.

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

The City has adopted the provisions of Texas Tax Code, Chapter 321, as amended, which provides for the maximum levy of a one percent sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of Certificates or other indebtedness, including the Certificates. Net collections are shown in APPENDIX A.

Optional Sales Tax

An election within the City in January 1993 approved an additional ½ cent sales tax to be collected for economic development purposes in accordance with Section 4A, Article 5109.6 of Vernon's Texas Civil Statutes, now codified as Texas Local Government Code, Chapter 504, as amended. The McKinney Economic Development Corporation was formed and the board of directors was appointed by the City Council to oversee the use of these funds. This revenue source is being used to encourage industrial and commercial development in the City. The collection of the tax began in July 1993. The implementation of this ½ cent sales tax increase did not require a corresponding reduction in property taxes.

In January 1996, a City election approved an additional ½ cent sales tax in accordance with Section 4B, Article 5190.6 of Vernon's Texas Civil Statutes, now codified as Texas Local Government Code, Chapter 505, as amended. This revenue source is used to fund various public facilities and infrastructure, including but not limited to parks, cultural and civic facilities, sports facilities, and historic preservation and tourism facilities. The revenue can also be used for operational costs of the facilities constructed. The McKinney Community Development Corporation was formed and a board of directors was appointed by the City Council to oversee the use of these funds. The collection of the tax began in July 1996. The implementation of this ½ cent sales tax did not require a corresponding reduction in property taxes.

EMPLOYEE BENEFITS

Pension Plans

The City and three of its component units participate as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit agent multiple-employer pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS, an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (TMRS Act) is 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.

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 actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. Employer contributions are actuarially determined; for the fiscal year ended September 30, 2019, the City and its component units made contributions of $12,527,597 or 15.15% of covered payroll.

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

For additional information regarding the City's TMRS plan, see "(5) PENSION PLAN" in the Notes to the Financial Statements attached hereto as APPENDIX D.

The City contributes to a single-employer defined benefit OPEB plan, the group-term life insurance plan known as the SDBF. This is a voluntary program administered by the Texas Municipal Retirement System (TMRS) in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. 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 12month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (OPEB) and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member 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.

Other Post-Employment Benefits

The City provides postemployment medical and dental benefits (OPEB) for eligible retirees, their spouses and dependents through a single-employer defined benefit plan, which covers both active and retired members.

All medical care benefits are provided through the City's self-insured health plan. The two optional benefit levels, CityCare PPO and CityCare Plus PPO, are the same for retirees as those afforded to active employees.

An irrevocable trust has not been established that meets the criteria in paragraph 4 of GASB Statement No. 75. Therefore, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through

ensuring the annual retiree contributions are equal to the benefits that are paid on behalf of the retirees. OPEB expense as actuarially determined for the City and its component units was $1,895,727 and $33,941, respectively.

For additional information regarding the City's OPEB liability, see "(6) POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS" in the Notes to the Financial Statements attached hereto as APPENDIX D.

Accrued Compensated Absences

Vacation is earned in varying amounts up to a maximum of 200 hours per year for employees and 300 hours for fire shift personnel with 20 years or more of service. Unused vacation may be carried forward from one year to the next and is limited to 300 hours for employees and 450 hours for fire shift personnel. Sick leave is accrued by employees at a rate of 11.37 hours per month and by fire shift personnel at a rate of 15.4 hours per month.

Compensation for accrued sick leave is paid upon separation up to a maximum of 160 hours for employees (excluding fire and sworn police personnel) with 5 consecutive years of service. Qualifying fire personnel are eligible for varying amounts of sick leave up to a maximum of 1080 hours after 20 years of service. Qualifying sworn police personnel are eligible for varying amounts of sick leave up to a maximum of 770 hours after 20 years of service.

All vacation and sick leave pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. As of September 30, 2019, the City had accrued compensated absence liability of approximately $13,599,623.

FINANCIAL POLICIES

The City has adopted financial policies that set forth the basic framework for the fiscal management of the City. These policies are included in the annual budget of the City, which is available at the City's website, at http://www3.mckinneytexas.org/210/Budget. Certain of the policies are described below.

Annual Budget. The fiscal year of the City begins on the first day of October each year and ends on the thirtieth day of September each year. On or before the fifteenth day of August of each year, the City Manager is required to submit to the City Council a budget of the revenues of the City and the expense of conducting the affairs thereof for the ensuing fiscal year. The classification of the estimate shall be as nearly uniform as possible for the main functional divisions of such departments, divisions and offices and shall give the following information: a) an itemized estimate of the expense of conducting each department, division, office and commission; b) comparison of such estimates with the corresponding items of expenditure of the last two fiscal years, and with the expenditures of the current fiscal year plus an estimate of expenditures necessary to complete the current fiscal year; c) reason for proposed increases or decreases of such items of expenditure compared with the current fiscal year; d) items of payroll increases as either additional pay to present employees or pay for more employees; e) a statement from the Chief Financial Officer of the total probable income of the City from taxes for the period covered by the estimate; f) an itemization of all anticipated revenue from sources other than the tax levy; g) the amount required for interest on the City's debt, for sinking fund and for maturing serial Certificates; h) the total amount of outstanding City debts, with a schedule of maturities on bond issues; i) such other information as may be required by the City Council; and j) the proposed budget shall contain a suggested tax rate to be levied to support the expenditures proposed. The City Manager shall also have the City Attorney prepare an appropriation ordinance and transmit it to the City Council with the budget.

Basis of Accounting and Budgeting. The City's finances shall be accounted for in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board. For further information regarding the City's accounting principles, see "(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" in the Notes to the Financial Statements attached hereto as APPENDIX D.

Financial Reporting. Following the conclusion of the fiscal year, the Chief Financial Officer shall cause to be prepared a Comprehensive Annual Financial Report in accordance with generally accepted accounting and financial reporting principles established by the Governmental Accounting Standards Board.

Debts. The City will manage the length of maturity of its long-term debt in order to lower net interest cost and to maintain future flexibility by paying off debt earlier. The target shall be 20 years.

Fund Balances. The City will maintain a minimum fund balance reserve equal to three months of the total operating expenses of the general fund.

The City will maintain a reserve of cash and investments in the Water and Wastewater Fund equal to 90 days of the total operating expenses.

The City will increase the cash and investments balance in all other enterprise funds to reach a level of at least 60 days of the total operating expenses.

TAX MATTERS

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Certificates. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Certificates in light of the investor's particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, brokers-dealers, and persons who have hedged the risk of owning the Certificates). The summary is therefore limited to certain issues relating to initial investors who will hold the Certificates as "capital assets" within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and acquire such Certificates for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE CERTIFICATES.

Payments of Stated Interest on the Certificates

The stated interest paid on the Certificates will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Original Issue Discount

If a substantial amount of the Certificates of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their stated redemption price at maturity by more than one quarter of one percent times the number of complete years to maturity, the Certificates of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the amount payable on such Certificates at maturity over its Issue Price, and the amount of the original issue discount on the Certificates will be amortized over the life of the Certificates using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Certificates, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Certificates that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Certificates each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner's gross income while the beneficial owner holds the Certificates will increase the adjusted tax basis of the Certificates in the hands of such beneficial owner.

Premium

If a beneficial owner purchases a Certificate for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the Certificate with "amortizable bond premium" equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the Certificate and may offset interest otherwise required to be included in respect of the Certificate during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Certificate held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Certificate. However, if the Certificate may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the Certificate. Any election to amortize bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Medicare Contribution Tax

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of "modified adjusted gross income" of the individual over $200,000 for unmarried individuals ($250,000 for married couples filing a joint return and a surviving spouse). Holders of the Certificates should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Certificates as well as gain on the sale of a Certificate.

Disposition of Certificates and Market Discount

A beneficial owner of Certificates will generally recognize gain or loss on the redemption, sale or exchange of a Certificate equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the Certificates. Generally, the beneficial owner's adjusted tax basis in the Certificates will be the beneficial owner's initial cost, increased by the original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the Certificates.

Under current law, a purchaser of a Certificate who did not purchase the Certificates in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the Certificates, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the Certificates by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Certificates. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Certificates with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Certificates could have a material effect on the market value of the Certificates.

Legal Defeasance

If the City elects to defease the Certificates by depositing in escrow sufficient cash and/or obligations to pay when due outstanding Certificates (a "legal defeasance"), under current tax law, a beneficial owner of Certificates may be deemed to have sold or exchanged its Certificates. In the event of such a legal defeasance, a beneficial owner of Certificates generally would recognize gain or loss in the manner described above. Ownership of the Certificates after a deemed sale or exchange as a result of a legal defeasance may have tax consequences different from those described above, and each beneficial owner should consult its own tax advisor regarding the consequences to such beneficial owner of a legal defeasance of the Certificates.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Certificates who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the Certificates. This withholding applies if such beneficial owner of Certificates: (i) fails to furnish to payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Certificates. Beneficial owners of the Certificates should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Certificates is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business;

(iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Certificates is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Certificates pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the Certificates are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to a foreign financial institution, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain United States persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the Foreign Account Tax Compliance Act ("FATCA") imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial United States owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest and principal under the Certificates and sales proceeds of Certificates held by or through a foreign entity. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

Reporting of Interest Payments

Subject to certain exceptions, interest payments made to beneficial owners with respect to the Certificates will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Certificate for U.S. federal income tax purposes.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the Issuer has made the following continuing disclosure agreement for the benefit of the holders and beneficial owners of the Certificates. The Issuer is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the Issuer 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 (the "MSRB"). The information will be available free of charge from the MSRB's Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

Annual Reports

The Issuer will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes quantitative financial information and operating data with respect to the Issuer of the general type included in this Official Statement in Appendices A and D. The Issuer will update and provide the information included within Appendix A within six months after the end of each fiscal year ending in or after 2020 and the information included within Appendix D within 12 months after the end of each fiscal year ending in or after 2020. The Issuer will provide the updated information to the MSRB.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA site or filed with the United States Securities and Exchange Commission (the "SEC"), 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 cannot be provided by the required time, the Issuer will provide unaudited financial statements and the audited financial statements if and when 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, the City must provide updated information included in Appendix A by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City

changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

Notice of Occurrence of Certain Events, Whether or Not Material

The City will file with the MSRB notice of any of the following events with respect to each series of the Certificates in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Bond 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, 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. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement, or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide 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.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. As used in clauses (15) and (16) above, the phrase “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii); provided, however, the phrase shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule and the City intends the other words used in such clauses to have the meanings ascribed to them in SEC Release No 34-83885, dated August 20, 2018.

Availability of Information

In connection with its continuing disclosure agreements entered into with respect to the Certificates, the City will file all required information and documentation 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 at www.emma.msrb.org.

Limitations and Amendments

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

The Issuer may amend its 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 Issuer, if the agreement, as amended, would have permitted an purchaser to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that the amendment will not materially

impair the interests of the beneficial owners of the Certificates. The Issuer may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Issuer also may amend the provisions of the Ordinance in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an purchaser from lawfully purchasing or selling Certificates in the primary offering of the Certificates giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Issuer amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the last five years, the City has complied in all material respects with continuing disclosure agreements made by it in accordance with the Rule.

OTHER PERTINENT INFORMATION

Registration and Qualification

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Litigation

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act, as amended, provides that public securities such as the Certificates are (i) negotiable instruments, (ii) investment securities to which Chapter 8, Texas Business and Commerce Code, as amended, applies and (iii) legal and authorized investments for insurance companies, fiduciaries or trustees and sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. The Texas Finance Code also contains provisions that, subject to the prudent investor standard, provide for the Certificates to be legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. For the Certificates to be eligible investments for municipalities, political subdivisions or public agencies of Texas, the PFIA provides a rating of not less than "A" or its equivalent as to investment quality must be assigned by a national rating agency. Furthermore, the Certificates are eligible to secure the deposits of any public funds of the State of Texas, its agencies and its political subdivisions and are legal security for those deposits to the extent of their market value.

Legal Opinions

The City will furnish the Initial Purchaser, complete transcripts of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Certificate to the effect that of the Certificates are valid and legally binding Obligations of the City and, based upon examination of such transcripts of proceedings, the approving legal opinion of Bond Counsel, to like effect. The customary closing papers, including a certificate of the City as described under "OTHER PERTINENT INFORMATION - Certification of the Official Statement" will also be furnished to the Initial Purchaser. Though it represents the Financial Advisor and investment banking firms such as the Initial Purchaser from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Forms and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates.

The 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.

Ratings

The Certificates have been rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AAA by S&P Global Ratings, a division of S&P Global Inc. ("S&P"). The currently outstanding unenhanced, tax supported debt of the City has an underlying rating of "Aaa (stable outlook)" by Moody's and "AAA (stable outlook)" by S&P. An explanation of the significance of such ratings may be obtained from the rating agencies. A rating by a rating agency reflects only the view of such company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that such a rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Certification of the Official Statement

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

Financial Advisor

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

The Financial Advisor 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 their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Initial Purchaser of the Certificates

After requesting competitive bids for the Certificates, the City accepted the bid of SAMCO Capital Markets (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the inside cover page of the Official Statement at a price of 100.00933 % of par. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial 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 Initial Purchaser.

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health

emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation.

The most recent executive orders provide for the phased reopening of businesses in Texas, subject to future restrictions in the Governor's discretion. Executive Order GA-26, which was issued on June 3, 2020 and remains in effect until modified, amended, rescinded or superseded by the Governor, removed occupancy restrictions for certain designated businesses and increased occupancy limits to 50 percent for most other businesses in Texas, provided that many restaurants will be able to operate at up to 75 percent of occupancy beginning on June 12. Additionally, businesses otherwise subject to a 50 percent occupancy limit and located in a county meeting certain Department of State Health Services criteria will be able to operate at up to 75 percent of occupancy beginning on June 12. Under Executive Order GA-26, for the remainder of the 2019-2020 school year, public schools may resume operations in the summer under protocols outlined in guidance from the Texas Education Agency.

In addition to the actions by the state and federal officials, certain local officials, including the City, previously declared a local state of disaster and public health emergency and in many instances have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders have focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts may reduce or otherwise negatively affect future property values and/or the collection of sales and other excise taxes, charges, and fees within the City as well as the assets of City pension funds. See "EMPLOYEE BENEFITS". The Certificates are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates and the City's operations and maintenance expenses. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes.

The City also collects a sales and use tax on all taxable transactions within the City's boundaries, and other fees that depend on business activity (see "ADDITIONAL TAX COLLECTIONS – Municipal Sales Tax Collections"). Actions taken to slow the Pandemic are expected to continue to reduce economic activity within the City on which the City collects taxes, charges, and fees. A reduction in the collection of taxes, sales revenues and other fees and charges may negatively impact the City's operating budget and overall financial condition.

The City is undertaking a number of measures to control and reduce expenditures in response to the Pandemic. The City will continue to monitor the financial impacts from the Pandemic and adjust its operational and capital outlooks as necessary to mitigate these impacts.

The financial and operating data contained herein are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City. The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition, and the effect could be material.

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 would prove to be accurate.

Concluding Statement

The financial data and other information contained in this Official Statement have been obtained from the City's records, audited financial statements and other sources, which are believed to be reliable. The City did not request BKD, LLP perform any updating procedures subsequent to the date of its audit report on the September 30, 2019 financial statements. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statues, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

This Official Statement wasapproved by the Pricing Officer of the Issuer for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12 as part of the Pricing Certificate.

Mark Holloway
Pricing Officer

APPENDIX A

FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT

FINANCIAL INFORMATION PERTAINING TO GENERAL OBLIGATION DEBT

Assessed Valuation [1]

2019/2020 Actual Market Value of Taxable Property			$	23,915,533,682
Less Exemptions:				
Local Over Age 65 or Disabled Exemption Loss	$	542,917,394		
Productivity Value Loss		734,104,928		
Freeport Exemption Loss		205,718,765		
Abatement Value Loss		-		
Disabled Veterans Homestead Loss		95,071,727		
Veterans Exemption Loss		7,818,450		
Historical Exemption Loss		36,309,250		
Homestead 10% Cap		91,836,866		
Pollution Control Exemption Loss		1,005,580		
Solar/Wind Exemption Loss		1,781,360	$	1,716,564,340
2019/2020 Net Taxable Assessed Valuation (100% of Actual)			$	22,198,969,342

[1] Source: Collin County Appraisal District. As of the date of certification by the Collin County Appraisal District.

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General Obligation Bonded Debt

General Obligation Refunding Bonds, Series 2012		4,330,000	
General Obligation Refunding Bonds, Series 2013		6,780,000	
Tax and Ltd Pledge Hotel Occupancy Tax Revenue Certificates of Obligation, Series 2013		4,865,000	
Tax and Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2013		10,250,000	
General Obligation and Refunding Bonds, Series 2014		14,960,000	
General Obligation Refunding Bonds, Taxable Series 2014		3,215,000	
Tax and Limited Pledge Hotel Occupancy Tax Revenue Certificates of Obligation, Taxable Series 2014A		2,215,000	
Tax and Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2014B		495,000	
General Obligation Bonds, Series 2015		37,970,000	
General Obligation Refunding and Improvement Bonds, Series 2016		37,025,000	
General Obligation Refunding Bonds, Series 2017		10,465,000	
General Obligation Bonds, Series 2018		21,625,000	
Tax and Ltd Pledge WW and SS Revenue Certificates of Obligation Taxable, Series 2019		6,420,000	
General Obligation Refunding and Improvement Bonds, Series 2019		45,430,000	
General Obligation Bonds, Series 2020A		40,290,000	(1)
General Obligation Refunding Bonds, Series 2020B		19,225,000	(1)
The Certificates	$	8,085,000	
Total Gross General Obligation Debt Outstanding	$	273,645,000	
Audited General Obligation Interest & Sinking Fund Balance	$	5,964,590	
Net General Obligation Debt Outstanding	$	267,680,410	

2020 Population	195,342
Per Capita 2019/2020 Net Assessed Valuation	113,642
Per Capita Gross General Obligation Debt	1,401
Per Capita Net General Obligation Debt	1,370

(1) Scheduled to close on September 2, 2020.

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General Obligation Debt Service Requirements

Fiscal Year Ended 09/30	Outstanding Debt Service [1]	Plus: The Certificates Principal	Plus: The Certificates Interest	Plus: The Certificates Total	Total Combined Debt Service
2020	$ 37,129,861	$ -	$ -	$ -	$ 37,129,861
2021	39,372,980	350,000	133,743	483,743	39,856,723
2022	31,687,574	345,000	135,845	480,845	32,168,419
2023	31,374,050	355,000	125,495	480,495	31,854,545
2024	29,996,410	365,000	114,845	479,845	30,476,255
2025	24,611,682	375,000	103,895	478,895	25,090,577
2026	19,969,935	380,000	100,145	480,145	20,450,080
2027	20,059,732	385,000	96,345	481,345	20,541,077
2028	19,507,280	390,000	92,495	482,495	19,989,775
2029	19,353,722	395,000	88,595	483,595	19,837,317
2030	17,769,891	395,000	83,855	478,855	18,248,746
2031	13,890,624	405,000	78,523	483,523	14,374,146
2032	13,872,767	410,000	72,853	482,853	14,355,619
2033	13,826,683	415,000	66,703	481,703	14,308,386
2034	13,787,981	420,000	60,063	480,063	14,268,043
2035	13,752,259	430,000	52,923	482,923	14,235,181
2036	6,505,031	435,000	45,183	480,183	6,985,214
2037	6,465,800	445,000	36,700	481,700	6,947,500
2038	6,424,263	455,000	27,800	482,800	6,907,063
2039	5,235,350	465,000	18,700	483,700	5,719,050
2040	2,871,300	470,000	9,400	479,400	3,350,700
	$ 387,465,173	$ 8,085,000	$ 1,544,103	$ 9,629,103	$ 397,094,276

[1] Indudes 2020A and 2020B Bonds which are scheduled to dose on September 2, 2020.

Tax Adequacy

Average Annual Requirement (2020 - 2040) ……..…….	$ 18,909,251
A tax rate of $0.0869 per $100 assessed valuation produces ……	18,909,251
Average Annual Requirement (10 year) (2020 - 2029) ……	27,739,463
A tax rate of $0.1275 per $100 assessed valuation produces ……	27,739,463
Maximinum Annual Requirement (2021) ……	39,856,723
A tax rate of $0.1832 per $100 assessed valuation produces ……	39,856,723

General Obligation Principal Repayment Schedule

Fiscal Year Ended 09/30	Outstanding Principal [1]	Plus: The Certificates	Total
2020	$ 25,920,000	$ -	$ 25,920,000
2021	27,770,000	350,000	28,120,000
2022	21,315,000	345,000	21,660,000
2023	22,025,000	355,000	22,380,000
2024	21,685,000	365,000	22,050,000
2025	17,355,000	375,000	17,730,000
2026	13,555,000	380,000	13,935,000
2027	14,295,000	385,000	14,680,000
2028	14,420,000	390,000	14,810,000
2029	14,950,000	395,000	15,345,000
2030	14,090,000	395,000	14,485,000
2031	10,755,000	405,000	11,160,000
2032	11,210,000	410,000	11,620,000
2033	11,650,000	415,000	12,065,000
2034	12,110,000	420,000	12,530,000
2035	12,585,000	430,000	13,015,000
2036	5,835,000	435,000	6,270,000
2037	5,990,000	445,000	6,435,000
2038	6,095,000	455,000	6,550,000
2039	5,055,000	465,000	5,520,000
2040	2,815,000	470,000	3,285,000
	$ 291,480,000	$ 8,085,000	$ 299,565,000

[1] Indudes Principal on 2020A Bonds and 2020B Refunded Bonds 2020A and 2020B set to dose on Spetember 2, 2020.

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Authorized But Unissued Bonds

Purpose	Date Authorized	Amount Authorized	Previously Issued [3]	The Certificates	Unissued Balance	
Public Safety Facilities	5/13/2006	$ 7,865,000	$ 7,586,000	$ -	$ 279,000	
Parks & Recreation Facilities	5/13/2006	22,080,000	20,140,000	-	1,940,000	[1]
Street Improvements	5/13/2006	46,600,000	46,349,080	-	250,920	
Municipal Airport Facilities	5/13/2006	465,000	465,000	-	-	
Library Facilities	5/13/2006	7,875,000	7,875,000	-	-	
Drainage Improvements	5/13/2006	6,665,000	6,460,000	-	205,000	
		$ 91,550,000	$ 88,875,080	$ -	$ 2,674,920	

Purpose	Date Authorized	Amount Authorized	Previously Issued [3]	The Certificates	Unissued Balance	
Public Safety Facilities	5/8/2010	$ 11,350,000	$ 11,350,000	$ -	$ -	
Parks & Recreation Facilities	5/8/2010	12,500,000	-	-	12,500,000	[2]
Street Improvements	5/8/2010	15,500,000	15,500,000	-	-	
Public Works	5/8/2010	5,000,000	5,000,000	-	-	
Drainage Improvements	5/8/2010	4,000,000	4,000,000	-	-	
Downtown Parking	5/8/2010	3,000,000	3,000,000	-	-	
		$ 51,350,000	$ 38,850,000	$ -	$ 12,500,000	

Purpose	Date Authorized	Amount Authorized	Previously Issued [3]	The Certificates	Unissued Balance
Public Safety Facilities	11/3/2015	$ 22,500,000	$ 14,000,000	$ -	$ 8,500,000
Street Improvements	11/3/2015	64,100,000	64,100,000	-	-
Municipal Building	11/3/2015	11,700,000	11,700,000	-	-
Drainage Improvements	11/3/2015	2,000,000	-	-	2,000,000
		$ 100,300,000	$ 89,800,000	$ -	$ 10,500,000

Purpose	Date Authorized	Amount Authorized	Previously Issued [3]	The Certificates	Unissued Balance
Public Safety	5/4/2019	$ 75,000,000	$ 14,750,000	$ -	$ 60,250,000
Municipal Complex Improvements	5/4/2019	50,000,000	8,000,000	-	42,000,000
Parks & Recreation	5/4/2019	91,000,000	8,000,000	-	83,000,000
Public Works	5/4/2019	34,000,000	6,000,000	-	28,000,000
Traffic	5/4/2019	100,000,000	9,700,000	-	90,300,000
		$ 350,000,000	$ 46,450,000	$ -	$ 303,550,000

[1] The City does not intend to issue the remaining authorization.

[2] The entire authorization was revoked by the voters at an election held on November 3, 2015.

[3] Includes 2020A and 2020B Bonds that are scheduled to close on September 2, 2020

Capital Improvement Plan and Proposed Issuance Schedule

The City annually includes in its budget, as a planning tool, a five year general governmental and enterprise fund capital improvement plan (the "CIP"). The CIP is subject to adjustment, and will be affected by a variety of factors, including tax base changes, events effecting water supply and sewer service, including, particularly, the rates required to support such services, population growth and public support for governmental infrastructure and other facilities. The current CIP includes $683,369,458 of approved projects for fiscal years ending 2020 and 2024. Of the $683,369,458, approximately $171,235,000 is anticipated to be funded during this five year period from the issuance of Revenue Certificates and $384,220,000 from the issuance of General Obligation Certificates/Certificates of Certificates. The current CIP includes the potential issuance of $77,850,000 and $31,750,000 in ad valorem tax-supported Certificates, and $40,515,000 and $29,950,000 in water and sewer revenue Certificates, in fiscal year 2020 and 2021, respectively, with the balance of the debt shown in the CIP issued in the later years covered by the CIP.

Overlapping Debt Data

Taxing Body	Gross Debt (as of 5/30/20	Percent Overlapping	Amount Overlapping
McKinney ISD	$ 506,989,012	88.314%	$ 447,742,276
Collin College District	542,110,000	15.600%	84,569,160
Collin County	333,150,000	15.590%	51,938,085
Allen ISD	551,873,446	7.674%	42,350,768
Frisco ISD	2,019,142,591	15.236%	307,636,565
Melissa ISD	182,150,000	3.611%	6,577,437
Prosper ISD	874,953,637	25.512%	223,218,172
Lovejoy ISD	157,942,326	2.622%	4,141,248
Subtotal, overlapping debt	$ 5,168,311,012		$ 1,168,173,711
City of McKinney [(1)]	$ 273,645,000	100%	273,645,000
Total Direct & Overlapping Debt			$ 1,441,818,711
Ratio of Direct and Overlapping Debt to 2019/2020 Net Assessed Valuation			6.49%
Ratio of Direct and Overlapping Debt to 2019/2020 Market Valuation			6.03%
Per Capita Direct and Overlapping Debt			$ 7,381

[(1)] Includes the Certificates.

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Principal Taxpayers

Tax Year 2019 Top Ten Taxpayers [1]			
Name of Taxpayer	Type of Business	2019 Taxable Value	% of Net Valuation
Encore Wire Limited [1]	Wire Cable Manufacturing	$ 159,414,828	0.74%
Craig Ranch [2]	Apartments	141,070,376	0.65%
Raytheon [3]	Electronics Manufacturing	111,071,211	0.51%
WRIA 14-7 LLC	Commercial Land	67,036,316	0.31%
Oncor Electric Delivery Company	Electric Utility	65,328,943	0.30%
West Eldorado TX Partners LLC	Apartments	62,095,000	0.29%
Fairways Wilson Creek Apartments LLC	Apartments	59,928,438	0.28%
Areg Grassmere TX Partners LLC	Apartments	56,350,000	0.26%
Orion McKinney LLC	Apartments	54,360,000	0.25%
Rowlett Apartments LLC	Apartments	49,881,884	0.23%
		$ 826,536,996	3.82%

(1) Percentage of Net Valuation based on Net Taxable Assessed Valuation of $23,915,533,682 per Collin Central Appraisal District.

(2) Includes three separate Owner TD's, Craig Ranch PT MFA III LP valued at $54,177,174, Craig Ranch PT MFA I LP valued at $53,206,895, and Craig Ranch PT MFA II LP valued at 33,686,307 respectively.

(3) Includes two separate Owner ID's and four accounts, Raytheon Company and Raytheon TI Systems Inc.

Tax Year 2018 Top Ten Taxpayers [1]			
Name of Taxpayer	Type of Business	2017 Taxable Value	% of Net Valuation
Encore Wire Limited	Wire Cable Manufacturing	$ 115,120,286	0.52%
Craig Ranch [2]	Apartments	96,511,017	0.44%
Raytheon [3]	Electronics Manufacturing	73,341,688	0.33%
WRIA 14-7 LLC	Commercial Land	67,036,316	0.30%
West Eldorado TX Partners LLC	Apartments	62,095,000	0.28%
Oncor Electric Delivery Company	Electric Utility	60,452,340	0.27%
Fairways Wilson Creek Apartments LLC	Apartments	59,928,438	0.27%
Areg Grassmere TX Partners LLC	Apartments	56,350,000	0.26%
Orion McKinney LLC	Apartments	54,360,000	0.25%
Rowlett Apartments LLC	Apartments	49,881,884	0.23%
		$ 695,076,969	3.16%

(1) Percentage of Net Valuation based on Net Taxable Assessed Valuation of $21,987,381,464 per Collin Central Appraisal District.

(2) Includes two separate Owner ID's, Craig Ranch PT MFA I LP valued at $50,629,845 and Craig Ranch PT MFA III LP valued at $45,881,172, respectively.

(3) Includes two separate Owner ID's and four accounts, Raytheon Company and Raytheon TI Systems Inc.

Tax Year 2017 Top Ten Taxpayers [1]			
Name of Taxpayer	Type of Business	2016 Taxable Value	% of Net Valuation
Craig Ranch [2]	Apartments	$ 136,160,799	0.69%
Encore Wire Limited	Wire Cable Manufacturing	103,459,722	0.53%
Raytheon [3]	Electronics Manufacturing	85,149,599	0.43%
Fairways Wilson Creek Apartments LLC	Apartments	58,973,486	0.30%
Oncor Electric Delivery Company	Electric Utility	55,027,871	0.28%
West Eldorado TX Partners LLC	Apartments	54,482,370	0.28%
Areg Grassmere TX Partners LLC	Apartments	52,357,181	0.27%
Orion McKinney LLC	Apartments	49,967,691	0.25%
Columbia Medical Center of McKinney	Medical Facility	48,086,966	0.24%
Centennial Lake Forest LP	Apartments	47,950,000	0.24%
		$ 691,615,685	3.51%

(1) Percentage of Net Valuation based on Net Taxable Assessed Valuation of $19,689,744,789 per Collin Central Appraisal District.

(2) Includes three separate Owner ID's, Craig Ranch PT MFA I LP valued at $50,172,526, TS Craig Ranch LLC valued at $43,326,168 and Craig Ranch PT MFA III LP valued at $42,662,105, respectively.

(3) Includes two separate Owner ID's, Raytheon TI Systems valued at $44,709,653 and Raytheon Company valued at $40,439,946, respectively.

Tax Year 2016 Top Ten Taxpayers [1]			
Name of Taxpayer	Type of Business	2015 Taxable Value	% of Net Valuation
Encore Wire Limited [2]	Wire Cable Manufacturing	$ 151,808,618	0.88%
Raytheon [3]	Electronics Manufacturing	83,993,061	0.49%
Oncor Electric Delivery Company	Electric Utility	56,865,997	0.33%
West Eldorado TX Partners LLC	Apartments	47,706,700	0.28%
Areg Grassmere TX Partners LLC	Apartments	46,459,333	0.27%
Columbia Medical Center of McKinney	Medical Facility	46,120,076	0.27%
Craig Ranch PT MFA I LP	Apartments	45,804,526	0.26%
Fairways Wilson Creek Apartments LLC	Apartments	45,387,640	0.26%
Stonebridge Ranch Apartment Community LLC	Apartments	44,053,440	0.25%
BRE Silver MF McKinney TX LP	Attorneys	41,828,807	0.24%
		$ 610,028,198	3.53%

(1) Percentage of Net Valuation based on Net Taxable Assessed Valuation of $17,302,031,953 per Collin Central Appraisal District.

(2) Includes two separate Owner ID's with the same taxpayer name valued at $111,916,826 and $39,891,792, respectively.

(3) Includes two separate Owner ID's, Raytheon TI Systems valued at $42,260,341 and Raytheon Company valued at $41,732,720, respectively.

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Classification of Assessed Valuations [1]

Category	Tax Year 2017	% of Total	Tax Year 2018	% of Total	Tax Year 2019	% of Total
Real, Residential, Single-Family	$ 14,399,365,011	66.94%	$ 15,939,084,566	66.93%	$ 16,215,837,358	67.80%
Real, Residential, Multi-Family	1,346,838,960	6.26%	1,646,759,929	6.92%	1,907,334,055	7.98%
Real, Vacant Lots/Tracts	225,538,350	1.05%	216,954,279	0.91%	265,007,078	1.11%
Real, Acreage	758,914,142	3.53%	779,700,233	3.27%	2,271,461	0.01%
Real, Farm & Ranch Improvements	352,632,445	1.64%	283,294,861	1.19%	214,261,175	0.90%
Real, Commercial & Industrial	2,708,397,609	12.59%	3,071,730,190	12.90%	3,490,717,515	14.60%
Utilities	151,028,557	0.70%	172,716,184	0.73%	198,181,335	0.83%
Tangible Personal, Business	1,072,717,385	4.99%	1,153,920,949	4.85%	1,121,103,452	4.69%
Tangible Personal, Other	3,053,700	0.01%	3,160,843	0.01%	2,968,564	0.01%
Residential Inventory	408,029,093	1.90%	461,857,586	1.94%	399,820,039	1.67%
Special Inventory	84,173,225	0.39%	84,084,839	0.35%	98,031,290	0.41%
Total Appraised Value	$ 21,510,688,477	100.00%	$ 23,813,264,459	100.00%	$ 23,915,533,322	100.00%
Plus:						
Totally Exempt Property	$ 2,156,646,234		$ 2,237,471,428		$ 2,385,536,687	
Less:						
Homestead 10% Cap	$ 339,734,443		$ 209,507,817		$ 91,836,886	
Productivity Value Loss	756,605,994		777,357,501		734,104,928	
Exemptions	2,881,249,485		3,076,789,105		3,276,159,213	
Total Exemptions/Deductions	$ 3,977,589,922		$ 4,063,654,423		$ 4,102,101,027	
Net Taxable Assessed Valuation	$ 19,689,744,789		$ 21,987,081,464		$ 22,198,968,982	

[1] Source: Collin Central Appraisal District, as of certification.

Property Tax Rates and Collections

Tax Year	Net Taxable Assessed Valuation	M&O Tax Rate	I&S Tax Rate	% Collections Current	% Collections Total
2009	10,704,040,928	0.40650	0.17900	98.28%	99.91%
2010	10,667,752,762	0.40650	0.17900	98.17%	99.90%
2011	10,836,891,848	0.40506	0.18044	98.25%	99.91%
2012	11,028,180,455	0.41220	0.17330	98.51%	99.91%
2013	11,904,989,520	0.42179	0.16371	98.62%	99.88%
2014	13,473,925,466	0.41544	0.16756	99.13%	99.85%
2015	15,327,566,890	0.40997	0.17303	99.43%	99.84%
2016	17,302,031,953	0.40177	0.17123	99.65%	99.84%
2017	19,689,744,789	0.37561	0.16459	99.50%	99.75%
2018	21,987,081,464	0.36239	0.16278	99.63%	99.75%
2019	22,198,969,342	0.35539	0.16021	98.65%	99.28% [1]

[1] Collections through May 31, 2020.

Municipal Sales Tax Collections

Fiscal Year	Sales Tax Collections [1]	Adjusted Ad Valorem Tax Levy	Tax Rate Per $100 Assessed Value	Perecent of Ad Valorem Tax Levy	Equivalent Ad Valorem Tax Rate
2011	18,786,926	63,053,432	0.58550	29.80%	0.1761
2012	17,704,453	64,138,405	0.58550	27.60%	0.1634
2013	19,416,642	65,276,463	0.58550	29.75%	0.1761
2014	20,178,192	70,345,201	0.58550	28.68%	0.1695
2015	21,691,728	78,727,444	0.58300	27.55%	0.1610
2016	21,260,566	89,141,519	0.58300	23.85%	0.1387
2017	23,144,381	98,988,320	0.57300	23.38%	0.1338
2018	26,708,785	106,363,804	0.54020	25.11%	0.1356
2019	28,502,110	115,469,556	0.52517	24.68%	0.1296
2020	20,723,673 [2]	125,597,208	0.51560	16.50%	0.0867

(1) Excludes the collections for the Economic Development Corporation and the Community Development Corporation. The municipal sales tax is not pledged to the payment of any of the Certificates.
(2) Collections through May 2020.

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General Fund Combined Statement of Revenues and Expenditures and Changes in Fund Balance

	Fiscal Year Ending September 30,				
	2019	2018	2017	2016	2015
Fund Balance - Beginning of Year	$ 76,892,614	$ 80,475,947	$ 65,606,029	$ 49,489,304	$ 41,838,867
Revenues:					
Property Taxes	78,827,663	73,847,744	69,881,667	63,437,519	57,078,521
Sales and Use Taxes	26,624,690	25,213,079	23,657,598	22,172,572	20,417,987
Franchise Taxes	16,071,697	16,167,036	14,790,276	14,162,263	13,767,129
Licenses and Permits	10,621,061	11,495,904	14,883,837	11,484,965	10,537,838
Intergovernmental	1,211,587	997,924	1,678,077	818,258	638,748
Charges for Services	13,286,467	10,011,177	8,728,651	6,406,978	4,599,242
Fines and Forfeitures	1,875,590	1,981,919	1,923,927	1,912,878	1,920,380
Investment Income	2,933,311	921,791	666,840	435,565	211,383
Contributions	479,138	441,134	452,614	449,464	816,790
Miscellaneous	460,907	793,419	9,527,638	433,414	449,307
Total Revenues	152,392,111	$ 141,871,127	$ 146,191,125	$ 121,713,876	$ 110,437,325
Expenditures:					
Current:					
General Government	$ 30,795,505	$ 26,846,592	$ 26,889,288	$ 21,939,787	$ 20,766,405
Public Safety - Police and Fire	65,856,377	61,051,374	54,073,855	50,542,431	48,315,214
Public Works	11,615,586	11,526,736	10,382,306	11,219,111	11,906,819
Parks and Recreation	14,285,713	14,905,962	12,758,943	8,938,852	8,064,453
Libraries	3,613,748	3,513,383	3,356,484	3,353,164	3,231,741
Development	11,010,882	10,799,131	9,306,429	9,344,721	8,876,417
Airport	-	-	-	-	-
Debt Service	1,004,798	321,679	321,679	394,569	-
Capital Expenditures	15,301,147	8,102,057	7,530,221	3,265,787	4,083,084
Total Expenditures	$ 153,483,756	$ 137,066,914	$ 124,619,205	$ 108,998,422	$ 105,244,133
Excess (Deficit) of Revenues Over Expenditures	(1,091,645)	$ 4,804,213	$ 21,571,920	$ 12,715,454	$ 5,193,192
Other Financing Sources (Uses):					
Issuance of Capital Lease	4,600,000				
Proceeds from Sale of Property	332,871	253,724	1,648,565	3,436,712	28,488
Operating Transfers In	6,915,000	3,271,730	3,342,096	4,678,072	4,341,035
Operating Transfers (Out)	(4,068,820)	(11,913,000)	(11,692,663)	(4,713,513)	(1,912,278)
Total Other Financing Sources (Uses):	7,779,051	(8,387,546)	(6,702,002)	3,401,271	2,457,245
Net change in fund balances	6,687,406	(3,583,333)	14,869,918	16,116,725	7,650,437
Fund Balance - End of Year [1]	$ 83,580,020	$ 76,892,614	$ 80,475,947	$ 65,606,029	$ 49,489,304

[1] Unreserved, undesignated General Fund Balance was $39,038,915 for 2014, $45,819,513 for 2015, $61,145,601 for 2016, $62,349,115 for 2017, and $53,483,079 for 2018.

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF McKINNEY AND COLLIN COUNTY

GENERAL INFORMATION REGARDING THE CITY OF McKINNEY AND COLLIN COUNTY

The City of McKinney, the county seat of Collin County, is located 30 miles north of downtown Dallas on U.S. Highway 75 and 51 miles northeast of Fort Worth. The City is a home rule city and operates under the Mayor-Council-Manager form of government. The City Council is comprised of the Mayor and six Council members. Four of the Council members are elected from defined districts, while the Mayor and two Council members are elected on an at-large basis. All members are elected for four-year staggered terms. The City Manager is the administrative head of the municipal government and carries out the policies of the City Council. It is the responsibility of the City Manager to appoint department heads and to conduct the general affairs of the City.

The City of McKinney has a diverse economy with a balanced employment mix in manufacturing, wholesale trade, retail trade, services, government, education and construction. In addition, the City is a progressive community with economic development as a major component of city planning. The City has adopted a ½ cent sales tax for economic development and created the McKinney Economic Development Corporation to direct the revenues from this tax for the recruitment of new businesses and jobs to the City. The City has also adopted an additional ½ cent sales tax to fund infrastructure, historic preservation efforts and public projects such as cultural and civic facilities and sports and recreation facilities. Furthermore, the City has been granted an Enterprise Zone designation under the State's Enterprise Zone Program.

Population Statistics

Year	Population	Year	Population
1960	13,763	2004	85,865
1970	15,193	2005	94,733
1980	16,256	2006	104,853
1990	21,283	2007	115,198
1991	23,138	2008	120,978
1992	24,261	2009	122,083
1993	25,953	2010	131,117
1994	29,706	2011	133,619
1995	30,173	2012	136,666
1996	31,783	2013	140,826
1997	34,150	2014	149,082
1998	38,700	2015	155,142
1999	44,000	2016	161,905
2000	54,369	2017	168,358
2001	58,438	2018	179,804
2002	66,990	2019	187,802
2003	76,907	2020	195,342

Source: City of McKinney; 2020 Annual Development Report. Prepared by the City of McKinney Planning Department. http://www.mckinneytexas.org/ArchiveCenter/ViewFile/Item/2125. Accessed on June 15, 2020.

Unemployment Rates

	City of McKinney			Texas		
	May 2020	May 2019	May 2018	May 2020	May 2019	May 2018
Civillian Labor Force	99,192	101,176	99,667	13,462,785	13,926,760	13,776,364
Total Employment	87,094	98,380	96,477	11,752,162	13,491,168	13,282,312
Total Unemployment	12,098	2,796	3,190	1,710,623	435,592	494,052
Percentage Unemployment	12.20%	2.76%	3.20%	12.71%	3.13%	3.59%

Source: Texas Labor Market Information, Not seasonally adjusted. http://www.texaslmi.com. Accessed on June 3, 2020.

Major Employers

Company	Product or Service	Approximate Number Number of Employees
Raytheon TI Systems, Inc.	Electronic systems	3,300
McKinney Independent School District	Educational services	2,640
Collin County	Governmental Services	1,673
Torchmark/United American	Insurance	1,250
Encore Wire	Manufacturing	1,150
City of McKinney	Governmental Services	1,021
Medical Center of McKinney	Medical services	905
Collin College	Education	651
Baylor Medical Center of McKinney	Medical services	523
Timber Blind	Manufacturing	500
Watson & Chalin	Manufacturing	240
Simpson Strong Tie	Manufacturing	225
Performance Food Groups	Food Processor	200
Emerson	Manufacturing	170
Leon's Texas Cuisine	Food Processor	160
Independent Bank	Financial Services	134
Tong Yang Group (TYG)	Manufacturing	130
RMCN	Credit Repair	95

Source: Oncor Economic Development Department (Community Profile).
http://external.oncor.com/CP/App/Index.html#/City/130. Accessed on June 15, 2020

Building Permits

Year	Commercial # Permits	Commercial $ Value	Residential # Permits	Residential $ Value	Multi-Family # Permits	Multi-Family $ Value
2009	43	$ 118,394,289	927	$ 277,410,480	3	$ 60,385,900
2010	26	109,125,720	1,052	328,611,467	0	-
2011	32	54,317,660	1,154	384,571,347	1	24,000,000
2012	39	154,463,795	1,490	503,960,461	2	46,877,763
2013	50	88,691,400	1,862	629,236,262	1	28,859,713
2014	44	112,327,571	1,703	581,978,845	4	47,218,075
2015	71	187,927,020	2,081	703,543,990	9	192,553,399
2016	59	116,187,569	2,205	734,006,485	5	116,044,204
2017	97	239,296,995	2,521	804,505,939	4	137,467,540
2018	105	295,791,897	2294	746,996,815	5	139,087,727

All permits listed are for new building permits alone and do not include additions and alteration permits.
Source: City of McKinney Annual Development Report.

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Additional Information

Utility Services:	City of McKinney (water and sewer), AT&T, Oncor Electric Delivery, Atmos Energy, Grayson-Collin Electric Cooperative.
Colleges & Universities:	Collin College – McKinney; Collin College – Frisco; Collin College – Plano; Southern Methodist University – Dallas, Texas Woman's University – Denton; University of North Texas – Denton, and University of Texas at Dallas – Richardson.
Financial Institutions:	Alliance Bank; American National Bank of Texas; Bank of America; Bank of Texas; BBVA Compass; BTH Bank; Chase Bank; First Bank of Texas NA; First Convenience Bank; First United Bank; Guaranty Federal Bank; Heritage Land Bank; Independent Bank; LegacyTexas Bank; Prosperity Bank; Synergy Bank; Texans Credit Union; Texas Star Bank; Valliance Bank; Wells Fargo Bank; Woodforest National Bank.
Air Transportation:	McKinney National Airport, Dallas-Fort Worth International Airport, Dallas Love Field Airport.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

NORTON ROSE FULBRIGHT

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

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

[Closing Date]

IN REGARD to the authorization and issuance of the "City of McKinney, Texas, Tax and Limited Pledge Airport Revenue Certificates of Obligation, Taxable Series 2020," dated August 15, 2020, in the principal amount of $8,085,000 (the "Certificates"), we have examined into their issuance by the City of McKinney, Texas (the "City"), solely to express legal opinions as to the validity of the Certificates. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Certificates, or the sufficiency of the security for or the value or marketability of the Certificates.

THE CERTIFICATES are issued in fully registered form only and in denominations of $5,000 or any integral multiple thereof (within a maturity). The Certificates mature on August 15 in each of the years specified in a pricing certificate executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Certificates (jointly, the "Ordinance"), unless redeemed prior to maturity in accordance with the terms stated on the Certificates. The Certificates accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Certificates, including the Ordinance and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Certificates, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

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

1. The Certificates have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable certificates of the City secured in the manner provided in the Ordinance, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

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, rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

APPENDIX D

AUDITED FINANCIAL STATEMENT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

Independent Auditor's Report

Members of the City Council
City of McKinney, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of McKinney (City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, 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 combining and individual fund financial statements and schedules, introductory and statistical sections as listed in the table of contents presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated January 29, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
January 29, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of McKinney, we offer readers of the City of McKinney financial statements this narrative overview and analysis of the financial activities of the City of McKinney for the fiscal year ended September 30, 2019. Please read this in conjunction with the transmittal letter at the beginning of the report and the City's financial statements following this section.

I. FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of McKinney exceeded its liabilities and deferred inflows of resources at September 30, 2019, by $1,199 million (Net Position). Of this amount, $917 million (77%) are invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net position restricted for specific purposes total $123 million (10%). The remaining $159 million (13%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

- The City of McKinney's net position increased by $40 million or 3%. Unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors, increased by $34 million or 28%.

- At the close of the current fiscal year, the City of McKinney's governmental funds reported combined ending fund balances of $304 million, an increase of $38 million in comparison to the prior year. Approximately $61 million, or 20%, of the fund balance is available for spending at the government's discretion (unassigned fund balance).

- Within the combined fund balances, $4.7 million is nonspendable for inventory and prepaid items. Fund balance is restricted in the amounts of $6 million for debt service, $207.1 million is for street construction and other capital projects, and $8 million for courts, grants and the other external constraints of special revenue funds. Assignments of fund balance have been made in the amounts of $1.1 million for the APEX center, $5.5 million for other postemployment benefits (OPEB), $10 million for capital equipment replacement, $0.5 million for disaster relief and $0.5 million for public and performing arts. The remaining $60.7 million is unassigned fund balance in the general fund and can be used for any lawful purpose. The unassigned general fund balance is equal to 40% of total general fund expenditures. This represents 15% more than the fund balance policy requirement of 25%.

- On a government-wide basis, the City's total liabilities increased by $81.9 million or 17% during the current fiscal year. Major contributable factors include debt issuances resulting in net increase of $50.1 million increase to bonds payable including associated changes in bond premiums. Additionally, the City experienced an increase in the net pension liability of $22 million primarily resulting from the depression of investment market conditions as of the actuarial measurement date of December 31, 2018.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net position presents information on all of the City of McKinney's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the total of assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of McKinney is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in these statements 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 the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Position and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including administrative, police, fire, development, public works, parks and library. Property taxes, sales taxes, hotel occupancy taxes, franchise fees, licenses and permit fees finance most of these activities.

- **Business-type Activities** – The City charges a fee to customers to cover all or most of the cost of certain services it provides. The City's water and wastewater system, solid waste system, airport, golf course and surface water drainage system are reported here.

- **Component Units** – The City includes four separate legal entities in its report – McKinney Economic Development Corporation, McKinney Community Development Corporation, McKinney Convention and Visitors Bureau and McKinney Main Street. Although legally separate, these component units are important because the City is financially accountable for them.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of McKinney, 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 of McKinney can be divided into three categories: governmental funds, proprietary funds including internal service 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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of McKinney maintains thirteen 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, all of which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of McKinney adopts an annual appropriated budget for its general fund, debt service fund, capital projects fund and nonmajor special revenue funds. Budgetary comparison statements have been provided for each of these funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18-22.

- **Proprietary Funds.** The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. There are two types of proprietary funds: enterprise funds and internal service funds. The City's proprietary fund financial statements are identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. Because these services benefit both governmental as well as business-type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

  The City of McKinney maintains five individual enterprise funds to account for its water and wastewater, airport, solid waste, golf course and surface water drainage. The water and wastewater fund and airport fund are considered major funds, while the solid waste fund, golf course fund and surface water drainage fund are considered as nonmajor funds of the City. Individual fund data for each of these funds is provided in the form of combining statements in this report.

  The City of McKinney uses the internal service funds as an accounting device to accumulate and allocate costs internally among the City's various functions. The City maintains two internal service funds, one to account for the claims of the City's self-funded insurance program and risk management program and one to account for the costs associated with the maintenance of the City's operation and service vehicles. As of September 30, 2019, the City has elected to transfer the second internal service fund's maintenance activities into the General fund and will not be reported following the current fiscal year.

  The basic proprietary fund financial statements can be found on pages 23-26.

- **Fiduciary Responsibilities.** The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, property owners and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position. The activities of these funds are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

  The basic fiduciary fund financial statements can be found on page 27.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-78.

Other Information. In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City of McKinney's progress in funding its obligation to provide pension benefits and other postemployment benefits to its employees, which can be found on pages 79-82.

The combining statements referred to earlier in connection with the nonmajor governmental funds, nonmajor enterprise funds and discretely presented component units are presented immediately following the required supplementary information on pensions. Combining statements and individual fund statements can be found on pages 83-124 of this report.

III. GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of McKinney, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $1,199 million as of September 30, 2019.

By far the largest portion of the City's net position, $917 million or 77% reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City of McKinney's net position, $123 million or 10%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $159 million or 13% may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reported a positive balance in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The net position for governmental activities and business-type activities is summarized as follows (in thousands):

	Governmental Activities		Business-type Activities		Total	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
ASSETS						
Current and other assets	$ 338,180	$ 298,086	$ 222,335	$ 207,870	$ 560,515	$ 505,956
Capital assets	626,558	614,647	536,813	498,351	1,163,371	1,112,998
Total Assets	964,738	912,733	759,148	706,221	1,723,886	1,618,954
DEFERRED OUTFLOWS OF RESOURCES	23,676	12,363	8,130	7,231	31,806	19,594
LIABILITIES						
Other liabilities	21,072	19,775	15,208	12,620	36,280	32,395
Long-term liabilities outstanding	361,767	314,571	157,713	126,211	519,480	440,782
Total Liabilities	382,839	334,346	172,921	138,831	555,760	473,177
DEFERRED INFLOWS OF RESOURCES	1,150	6,287	128	791	1,278	7,078
NET POSITION						
Net investment in capital assets	461,844	440,381	455,241	448,604	917,085	888,985
Restricted	105,207	127,255	13,890	17,302	119,097	144,557
Unrestricted	37,374	16,827	125,098	107,924	162,472	124,751
Total Net Position	$ 604,425	$ 584,463	$ 594,229	$ 573,830	$ 1,198,654	$ 1,158,293

The City of McKinney's net position increased by $40 million during the current fiscal year. This was driven by an increase in both governmental and business-type net position of $20 million, each. Details are listed in the table below and discussed on pages 8-11.

Changes in Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
REVENUES						
Program revenues:						
Charges for services	$ 26,915	$ 28,232	$ 114,282	$ 112,156	$ 141,197	$ 140,388
Operating grants and contributions	3,450	2,762	50	32	3,500	2,794
Capital grants and contributions	36,010	50,241	18,829	38,938	54,839	89,179
General revenues:						
Property taxes	116,385	107,281	-	-	116,385	107,281
Sales taxes	30,724	29,079	-	-	30,724	29,079
Franchise taxes	16,057	16,253	-	-	16,057	16,253
Other taxes and fees	341	338	-	-	341	338
Investment income	8,233	3,995	5,909	3,892	14,142	7,887
Other revenues	692	820	225	314	917	1,134
Total Revenues	238,807	239,001	139,295	155,332	378,102	394,333
EXPENSES						
General government	38,767	35,050	-	-	38,767	35,050
Police	38,969	34,855	-	-	38,969	34,855
Fire	34,466	31,327	-	-	34,466	31,327
Libraries	4,101	3,968	-	-	4,101	3,968
Development	12,284	11,993	-	-	12,284	11,993
Parks and recreation	20,028	20,227	-	-	20,028	20,227
Public works	50,529	47,181	-	-	50,529	47,181
Interest on long-term debt	8,594	7,617	-	-	8,594	7,617
Airport	-	-	12,083	11,333	12,083	11,333
Water/Wastewater	-	-	91,547	86,521	91,547	86,521
Solid Waste	-	-	7,706	7,641	7,706	7,641
Golf Course	-	-	79	209	79	209
Surface Water Drainage	-	-	3,054	2,531	3,054	2,531
Special Item/Loss on sale of assets	15,534		-	-	15,534	-
Total Expenses	223,272	192,218	114,469	108,235	337,741	300,453
Increase (Decrease) in Net Position Before Transfers	15,535	46,783	24,826	47,097	40,361	93,880
Transfers	4,427	(20,388)	(4,427)	20,388	-	-
Increase (Decrease) in Net Position	19,962	26,395	20,399	67,485	40,361	93,880
Net Position-Beginning	584,463	558,068	573,830	506,345	1,158,293	1,064,413
Net Position- Ending	$ 604,425	$ 584,463	$ 594,229	$ 573,830	$ 1,198,654	$ 1,158,293

Governmental Activities

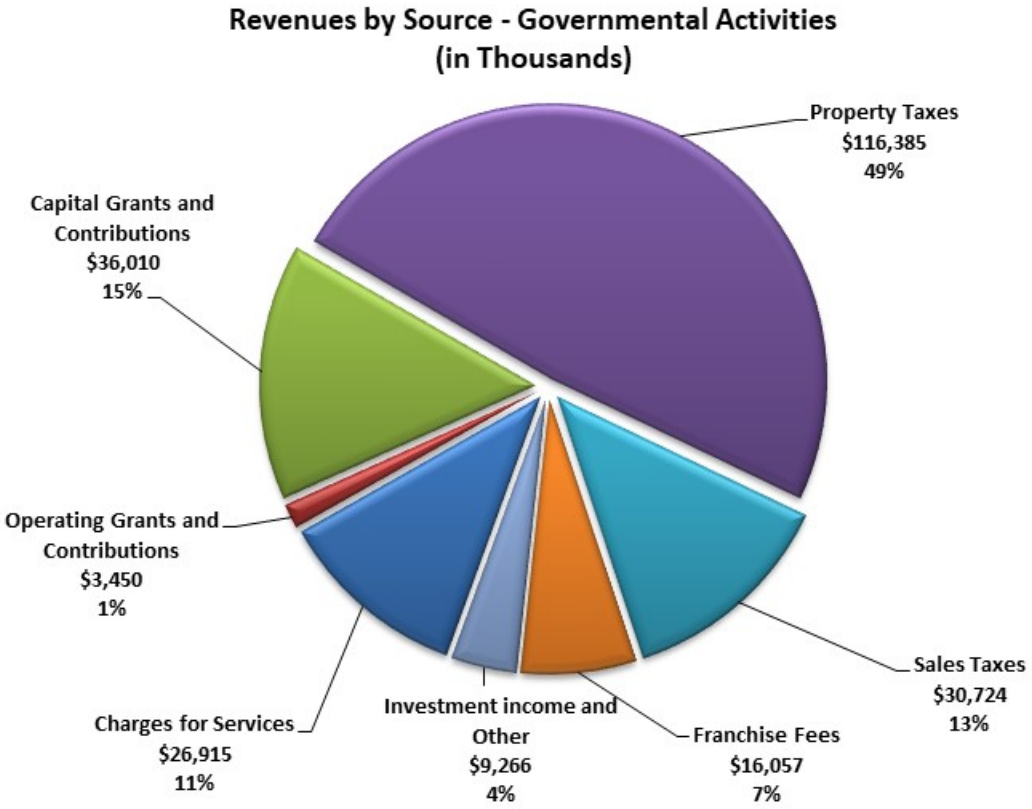
Governmental activities increased the City's net position by $20 million during the current fiscal year. The key elements of this increase are as follows:

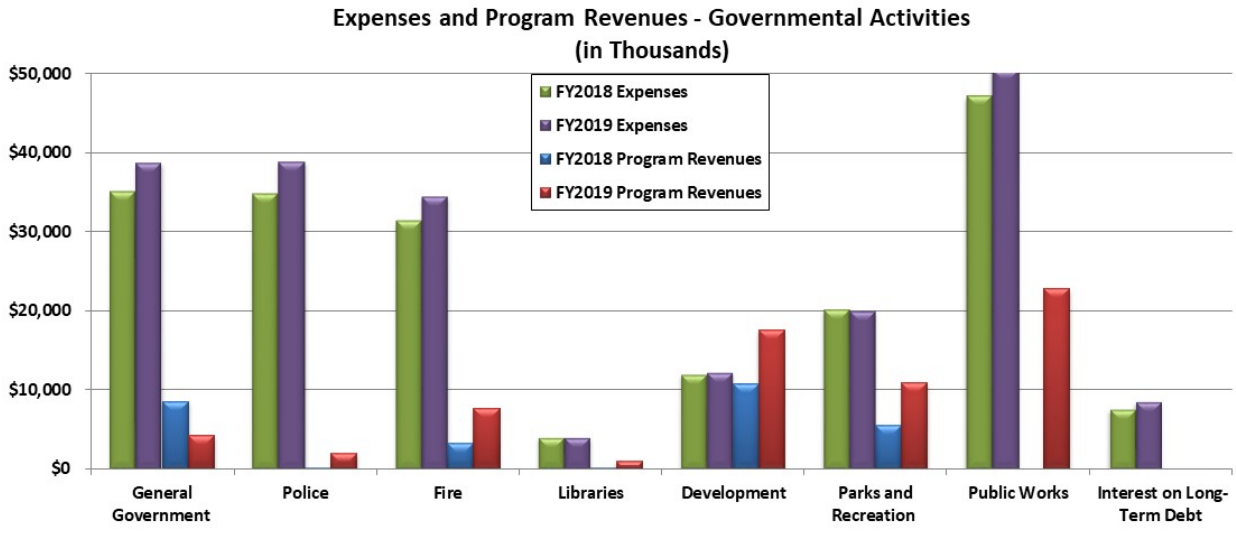
Revenues

- Property taxes increased by $9.1 million as a result of a 11% increase in certified taxable value.
- Sales taxes increased by $1.6 million, or 6% as a result of population and commercial growth in the area.
- Capital grants and contributions decreased by $14.2M or 28% primarily as a result of decreases in developer contributions. This is most closely associated with the current year decrease in permits of 27%.
- Investment income increased by $4.2 million or 106% resulting from an improved investment market.

Expenses

- The City's governmental expenses increased by $15.2 million.
- The 2019 budget authorized 56 additional positions and a 3% merit pool for increased personnel costs of $8.5 million.
- During the current year governmental expenses for loss on disposal of capital assets increased to $15.5M as a result of a lessee exercising their contract option to buy the City's and MCDC's ownership for an amount less than book value.





Business-type Activities

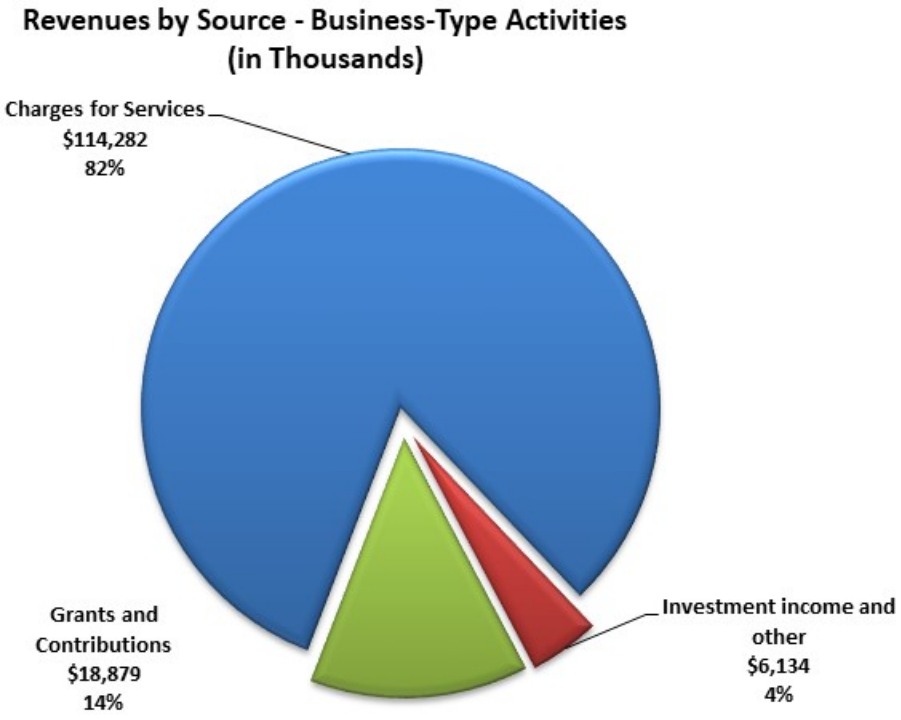
Business-type activities increased the City of McKinney's net position by $20 million, accounting for the increase in the government's net position. Key elements of this increase are as follows:

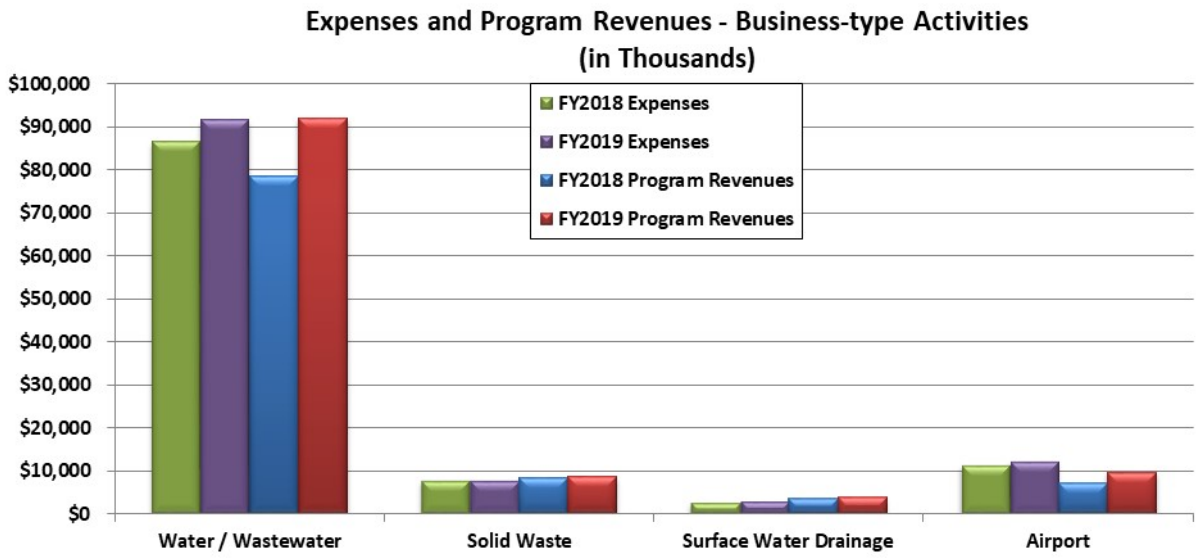
Revenues

- The Water/Wastewater Fund's operating revenues increased by $819 thousand, or 1% as a result of residential growth adding approximately 2,000 new customer accounts which was offset by higher rainfall in the current year.
- The Water/Wastewater Fund received capital contributions of $18.8 million relating to continued development in the City.
- The Airport Fund's operating revenues increased by $1.3 million or 16% due to increases in air traffic resulting in greater fuel sales and associated use fees.

Expenses

- Operating expenses in the Water/Wastewater Fund increased $4.7 million mainly attributed to a $5.1 million increase in water purchase and sewer service charges from North Texas Municipal Water District and 7 new positions with an increased personnel cost of $1.1 million. Other expenses decreased by $1.7 million relating to non-capitalized special projects completed in the prior year.





Financial Analysis of the City's Funds

Governmental Funds

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

As of the close of the current fiscal year, the governmental funds reported combined ending fund balances of $304 million, an increase of $38 million or 14% in comparison to the prior year. Approximately $61 million or 20% of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either considered nonspendable, restricted, or assigned in conformance with GASB 54 requirements. Please see page 18 for financial details and page 40 for category definitions.

General Fund. The general fund is the chief operating fund of the City of McKinney. At the end of the current fiscal year, the unassigned general fund balance was $61 million, while total fund balance was $84 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 40% of total general fund expenditures.

The original budget included a planned decrease in fund balance of $629 thousand. However, the general fund balance increased by $6.7 million or 9% during the current fiscal year. This was the result of achieving actual expenditures below budget by $8 million primarily related to reductions in general government expenditures.

Debt Service Fund. The debt service fund had a total fund balance of $6 million, an increase of $414 thousand over the prior year. Higher property valuations and increased investment income outweighed the City's annual debt service requirements.

Capital Projects Fund. The governmental capital projects fund had an ending fund balance of $197 million. Total expenditures for the current year were $49 million. The large fund balance is due primarily to the issuance of long-term debt during the fiscal year. A second factor contributing to the large fund balance is the result of many unfinished projects. Most of the projects have long duration due to acquisition of right-of-way and construction phases. Major expenditures incurred during the current year include Trinity Falls Fire Station #10 construction, Gabe Nesbitt Tennis Center expansion, Municipal Complex land acquisition, and several major road extensions.

Proprietary Funds

The City's proprietary funds provide the same type of information that is found in the government-wide financial statements for business-type activities, but in more detail. At September 30, 2019, net position of the proprietary funds included the following amounts of net position:

Water and Wastewater Fund. Water and Wastewater Fund net position increased by $20.6 million resulting primarily from capital contributions and an increase in investment earnings to improved market conditions. Operating revenues totaled $92 million, an increase of $819 thousand, or 1% over the prior year due to residential development resulting in approximately 2,000 new service locations which was offset by higher rainfall in the current year. Operating expenses in the Water and Wastewater Fund were $86 million, an increase of $4.7 million or 6% over the prior year, primarily a result of the significant increases in NTMWD water purchase rates and sewer service charges.

Airport Fund. The City's Airport Fund ended the year with a net position of $122.8 million, which was a decrease of $2 million compared to the previous year. This was a result of a slight increase in operating expense in the current year. The unrestricted net position of the Airport Fund increased by $877 thousand or 5% during the current fiscal year. Operating revenues increased by $1.3 million for the year due to higher fuel sales and hangar leases, totaling $8.7 million. Operating expenses were $12 million which increased by $676 thousand primarily due to increased fuel costs.

Solid Waste Fund. The City's Solid Waste Fund net position increased by $1.1 million. Operating revenues totaled $8.7 million, which was a decrease of $191 thousand as compared to the previous year. Operating expenses were $7.7 million which were $65 thousand higher than the previous year.

Golf Course Fund. The Golf Course Fund net position increased by $5 thousand. Revenues were approximately $89 thousand which was the contract fee. Expense was primarily city constructed maintenance improvements and depreciation totaling $79 thousand. In October 2008, the management of the golf course was outsourced to a contractor, DWW Golf Management. The contractor is responsible for collecting all revenues and budgeting for operating expenses. Under the contract terms, the City of McKinney collects an amount equal to 8% of gross revenues.

Surface Water Drainage Fund. The Surface Water Drainage Fund's net position increased by $678 thousand to $5.8 million. Charges for services remained relatively consistent with the prior year at $3.9 million.

General Fund Budgetary Highlights

The actual FY2018-19 expenditures were $153.5 million, $3.4 million less than the final budget of $156.9 million. However, at the end of the year, $2.1 million of budgeted development studies, capital equipment replacements, and other various projects were not completed and will be re-appropriated to fiscal year 2020.

Actual revenues were $152.4 million or $0.5 million less than the $152.9 million budget plan. The final revenue budget was $1.3 million more than the original adopted budget mainly attributed to investment market conditions exceeding expectations by $0.9 million and local residential growth driving up franchise and permit fees by $0.5 million.

IV. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. At the end of the fiscal year, the City had $1.16 billion invested in a broad range of capital assets, including land and buildings, roads, bridges, water and wastewater systems, drainage systems, park facilities, and police and fire equipment. This amount represents a net increase (including additions and deductions) of $50.3 million over the prior fiscal year.

Capital assets, net of accumulated depreciation in thousands, for governmental activities and business-type activities are summarized as follows:

	Governmental Activities		Business-type Activities		Total	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Land	$ 42,585	$ 37,790	$ 52,367	$ 52,373	$ 94,952	$ 90,163
Works of art	88	32	-	-	88	32
Construction in progress	71,128	37,527	50,302	23,662	121,430	61,189
Buildings	123,529	136,763	31,788	27,648	155,317	164,411
Infrastructure	363,763	376,796	395,745	388,886	759,508	765,682
Machinery and equipment	25,454	25,726	6,611	5,782	32,065	31,508
Service animals	11	13	-	-	11	13
Total	$ 626,558	$ 614,647	$ 536,813	$ 498,351	$ 1,163,371	$ 1,112,998

Capital project commitments as of September 30, 2019 were:

Description	Appropriated Commitment
Water/Wastewater Projects	$ 137,445,044
Streets Projects	143,242,931
Library Projects	6,714,217
Parks Projects	69,116,159
Fire Projects	18,978,175
Municipal Facilities	27,716,375
Technology Projects	15,856,202
Stormwater Projects	20,954,010
Airport Projects	19,835,549
	$ 459,858,661

Additional information about the City's capital assets is presented in *Note (3) G* to the financial statements at pages 50-53.

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Long-term Debt. At year end, the City had $426 million in general obligation bonds, certificates of obligation, tax notes and revenue bonds. The total debt was $375 million at the end of the prior fiscal year. This represents an increase of 13%. All outstanding debt is summarized in thousands below:

	Governmental Activities		Business-type Activities		Total	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
General obligation bonds, certificates of obligations and tax notes (backed by the City)	$ 277,281	$ 255,837	$ -	$ -	$ 277,281	$ 255,837
Revenue bonds (backed by fee revenues)	-	-	148,293	119,653	148,293	119,653
Totals	$ 277,281	$ 255,837	$ 148,293	$ 119,653	$ 425,574	$ 375,490

In 2019, the City once again received the highest ratings issued from two major credit rating agencies for its general obligation (GO) bonds. Moody's Investors Service reaffirmed its Aaa rating and Standard and Poor's reaffirmed its AAA rating for the City's general obligation bonds.

The city earned an upgraded rating of Aa1 from Moody's and a reaffirmed rating of AA+ with stable outlook from Standard and Poor's for its water and wastewater utilities system

Additional information on the long-term debt can be found in *Note (3) J* to the financial statements starting at page 55.

V. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of McKinney, Texas continues to be financially strong. Although the economy is the primary factor, the City's elected and appointed officials considered many factors when setting the fiscal year 2020 budget, tax rates and fees that will be charged for the business-type activities. The priority for fiscal year 2020 continues to be maintaining quality service while observing prudent spending practices.

Highlights of the 2020 budget include:

- Balanced budget, with total revenues equal to or greater than total expenditures
- Property tax rate reduced one cent to $0.515600 cents per $100 assessed value
- Total City budget $585 million
- General Fund budget $157.9 million
- Increased and sustained funding for equipment and facilities improvements
- Budgeted supplemental funding of $15 million ($5 million for additional staff and other recurring costs, $10 million for one-time costs) to accommodate citywide departmental needs and operating impacts from Capital Improvement Program
- Additional 59 full-time equivalent (FTE) positions (35 in the General Fund and 24 in other funds)

The property tax rate for fiscal year 2020 decreased from $0.525170 to $0.515600 per $100 assessed value.

For fiscal year 2020, the water and wastewater (sewer) rates increased 2% and 6%, respectively, due to increased cost of service from the North Texas Municipal Water District (NTMWD). The monthly minimum residential water charge will increase from $16.20 to $16.50. The water volume rate will charge customers $4.00 per thousand gallons for the first 7,000 gallons. Residential and sprinkler/irrigation customers will be charged $5.50 per thousand gallons if the monthly consumption exceeds 7,000 gallons but is less than 20,000 gallons; monthly consumption that exceeds 20,000 gallons but less than 40,000 gallons will be charged at $6.95; monthly consumption over 40,000 gallons will be charged at 8.35 per thousand gallons. The monthly minimum wastewater rate will increase from $17.75 to $18.80. The wastewater volume rate will increase from $4.95 to $5.25 per thousand gallons of water used.

Requests for Information

The financial report is designed to provide a general overview of the City of McKinney's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, City of McKinney, 222 North Tennessee Street, McKinney, Texas 75069.

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BASIC FINANCIAL STATEMENTS

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CITY OF MCKINNEY, TEXAS
STATEMENT OF NET POSITION
GOVERNMENT-WIDE
SEPTEMBER 30, 2019

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 147,266,638	$ 51,798,346	$ 199,064,984	$ 64,233,377
Investments	34,061,130	13,493,645	47,554,775	7,134,117
Receivables (net of allowance for uncollectibles)	13,508,855	16,132,309	29,641,164	5,137,601
Internal balances	394,567	(394,567)	-	-
Due from other governments	4,811,355	-	4,811,355	-
Inventories	199,357	622,347	821,704	-
Prepaid items	4,517,412	11,447,167	15,964,579	29,494
Restricted:				
Cash and cash equivalents	133,420,675	109,253,904	242,674,579	1,790,687
Investments	-	19,896,785	19,896,785	-
Accrued interest receivable	-	85,256	85,256	-
Capital Assets:				
Nondepreciable	113,801,163	102,668,672	216,469,835	67,536,840
Depreciable (net)	512,757,119	434,144,218	946,901,337	216,604
Total Assets	964,738,271	759,148,082	1,723,886,353	146,078,720
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension outflows	20,973,742	2,641,111	23,614,853	422,806
Deferred OPEB outflows	1,556,416	137,239	1,693,655	21,969
Deferred charge for refunding	1,145,673	602,406	1,748,079	61,874
Excess consideration provided for acquisition	-	4,749,577	4,749,577	-
Total Deferred Outflows of Resources	23,675,831	8,130,333	31,806,164	506,649
LIABILITIES				
Accounts payable	9,133,589	7,332,412	16,466,001	798,542
Other accrued liabilities	8,100,629	3,588,498	11,689,127	65,600
Unearned revenue	1,016,024	-	1,016,024	-
Accrued interest payable	1,382,166	240,840	1,623,006	164,295
Deposits	1,439,539	4,046,542	5,486,081	-
Noncurrent liabilities				
Due within one year				
Compensated absences	775,978	73,153	849,131	11,726
Bonds payable	29,349,291	9,746,520	39,095,811	4,025,000
Capital lease	4,357,042	-	4,357,042	-
Due in more than one year				
Compensated absences	11,482,771	1,082,493	12,565,264	173,502
Bonds payable	247,932,125	138,546,466	386,478,591	43,110,000
Capital lease	195,417	-	195,417	-
Net pension liability	49,527,143	6,236,682	55,763,825	998,408
Total OPEB liability	18,146,794	2,027,999	20,174,793	324,655
Total Liabilities	382,838,508	172,921,605	555,760,113	49,671,728
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	1,020,263	128,260	1,148,523	20,533
Deferred OPEB inflows	129,886	-	129,886	-
			1,278,409	20,533
Total Deferred Inflows of Resources	1,150,149	128,260		
NET POSITION				
Net investment in capital assets	461,843,548	455,241,220	917,084,768	22,205,301
Restricted for:				
Use of impact fees	-	5,913,858	5,913,858	-
Highways and streets	18,494,348	-	18,494,348	-
Debt service	5,964,590	7,974,994	13,939,584	1,790,687
Capital projects	62,137,151	-	62,137,151	-
Public safety	439,588	-	439,588	-
Community development	15,361,571	-	15,361,571	-
Court	530,241	-	530,241	-
PEG	1,864,718	-	1,864,718	-
Grants and donations	415,799	-	415,799	-
Unrestricted	37,373,891	125,098,478	162,472,369	72,897,120
Total Net Position	$ 604,425,445	$ 594,228,550	$ 1,198,653,995	$ 96,893,108

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

CITY OF MCKINNEY, TEXAS
STATEMENT OF ACTIVITIES
GOVERNMENT-WIDE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
GOVERNMENTAL ACTIVITIES				
General government	$ 38,767,205	$ 5,507,427	$ 488,764	$ 764,277
Police	38,968,663	116,205	1,381,349	-
Fire	34,465,660	5,521,682	389,857	-
Libraries	4,100,658	53,199	11,012	681,491
Development	12,283,958	9,752,813	766,594	6,960,425
Parks and recreation	20,027,790	5,963,869	412,398	4,808,042
Public works	50,529,535	-	-	22,796,053
Interest on long-term debt	8,593,941	-	-	-
Total Governmental Activities	207,737,410	26,915,195	3,449,974	36,010,288
BUSINESS-TYPE ACTIVITIES				
Water/Wastewater	91,546,894	92,032,171	-	18,808,395
Solid Waste	7,705,838	8,672,740	-	-
Golf Course	79,314	29,642	-	-
Surface Water Drainage	3,054,064	3,907,784	-	-
Airport	12,083,532	9,639,761	50,000	20,204
Total Business-type Activities	114,469,642	114,282,098	50,000	18,828,599
Total Primary Government	$ 322,207,052	$ 141,197,293	$ 3,499,974	$ 54,838,887
COMPONENT UNITS				
McKinney Economic Development Corp	$ 7,571,919	$ -	$ -	$ -
McKinney Community Development Corp	4,660,251	-	-	-
McKinney Convention & Visitors Bureau	755,309	-	712,000	-
McKinney Main Street Corp	1,697,848	1,604,729	80,214	-
Total Component Units	$ 14,685,327	$ 1,604,729	$ 792,214	$ -

GENERAL REVENUES
- Property taxes
- Sales taxes
- Franchise taxes
- Other taxes
- Unrestricted investment earnings
- Gain on sale of property
- Miscellaneous
- Special item/loss on sale of assets

TRANSFERS

Total General Revenues, Transfers and Special Items

Change in Net Position

Net Position, Beginning of Year

Net Position, End of Year

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

Governmental Activities	Business-type Activities	Total	Component Units
$ (32,006,737)	$ -	$ (32,006,737)	$ -
(37,471,109)	-	(37,471,109)	-
(28,554,121)	-	(28,554,121)	-
(3,354,956)	-	(3,354,956)	-
5,195,874	-	5,195,874	-
(8,843,481)	-	(8,843,481)	-
(27,733,482)	-	(27,733,482)	-
(8,593,941)	-	(8,593,941)	-
(141,361,953)	-	(141,361,953)	-
-	19,293,672	19,293,672	-
-	966,902	966,902	-
-	(49,672)	(49,672)	-
-	853,720	853,720	-
-	(2,373,567)	(2,373,567)	-
-	18,691,055	18,691,055	-
$ (141,361,953)	$ 18,691,055	$ (122,670,898)	$ -
$ -	$ -	$ -	$ (7,571,919)
-	-	-	(4,660,251)
-	-	-	(43,309)
-	-	-	(12,905)
$ -	$ -	$ -	$ (12,288,384)
$ 116,385,145	$ -	$ 116,385,145	$ -
30,724,015	-	30,724,015	28,502,110
16,056,901	-	16,056,901	-
340,802	-	340,802	-
8,232,558	5,909,199	14,141,757	1,792,497
-	-	-	1,891,168
692,096	225,067	917,163	34,044
(15,533,759)	-	(15,533,759)	(5,020,112)
4,426,814	(4,426,814)	-	-
161,324,572	1,707,452	163,032,024	27,199,707
19,962,619	20,398,507	40,361,126	14,911,323
584,462,826	573,830,043	1,158,292,869	81,981,785
$ 604,425,445	$ 594,228,550	$ 1,198,653,995	$ 96,893,108

CITY OF MCKINNEY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental
ASSETS					
Cash and cash equivalents	$ 43,738,031	$ 5,942,774	$ 201,058,104	$ 17,798,130	$ 268,537,039
Investments	34,061,130	-	-	-	34,061,130
Receivables (net of allowance for uncollectibles)					
Delinquent property taxes	750,516	330,245	-	-	1,080,761
Accounts	1,898,223	3,209	12,437	1,449	1,915,318
Notes	1,156,052	-	-	-	1,156,052
Other taxes and fees	8,462,713	-	-	245,142	8,707,855
Accrued interest	105,656	-	-	-	105,656
Due from other funds	567,567	-	-	-	567,567
Due from other governments	373,784	-	3,952,672	484,899	4,811,355
Inventory	199,357	-	-	-	199,357
Prepaid items	4,513,569	-	-	3,843	4,517,412
Total Assets	$ 95,826,598	$ 6,276,228	$ 205,023,213	$ 18,533,463	$ 325,659,502
LIABILITIES					
Accounts payable	$ 2,263,687	$ -	$ 5,328,371	$ 172,338	$ 7,764,396
Other accrued liabilities	4,860,784	-	3,052,321	130,842	8,043,947
Deposits	1,439,539	-	-	-	1,439,539
Due to other funds	-	-	-	173,000	173,000
Unearned revenue	978,466	-	37,558	-	1,016,024
Total Liabilities	9,542,476	-	8,418,250	476,180	18,436,906
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	2,704,102	311,638	-	-	3,015,740
Total Deferred Inflows of Resources	2,704,102	311,638	-	-	3,015,740
FUND BALANCES					
NONSPENDABLE:					
Inventory	199,357	-	-	-	199,357
Prepaid items	4,513,569	-	-	3,843	4,517,412
RESTRICTED:					
Debt service	-	5,964,590	-	-	5,964,590
Street construction	-	-	120,407,707	-	120,407,707
Capital projects	-	-	76,197,256	10,542,344	86,739,600
Law enforcement	24,393	-	-	503,467	527,860
Courts	530,241	-	-	-	530,241
Fire	-	-	-	41,659	41,659
PEG	-	-	-	1,864,718	1,864,718
Library	-	-	-	75,015	75,015
Community housing	-	-	-	204,597	204,597
Parks	-	-	-	109	109
Hotel/Motel	-	-	-	4,610,787	4,610,787
Transit	-	-	-	183,121	183,121
Grants	-	-	-	27,623	27,623
ASSIGNED:					
APEX	1,095,519				1,095,519
Capital equip replacement	10,018,610	-	-	-	10,018,610
Disaster relief	516,552	-	-	-	516,552
OPEB	5,511,473	-	-	-	5,511,473
Public & performing arts	464,845	-	-	-	464,845
UNASSIGNED	60,705,461	-	-	-	60,705,461
Total Fund Balances	83,580,020	5,964,590	196,604,963	18,057,283	304,206,856
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 95,826,598	$ 6,276,228	$ 205,023,213	$ 18,533,463	$ 325,659,502

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

CITY OF MCKINNEY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

Fund balances of governmental funds		$ 304,206,856
Amounts reported for governmental activities in the statement of net position are different because:		
Receivables not measureable and available within 60 days of year-end, and therefore are unavailable in the fund financial statements.		3,015,740
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.		626,558,282
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:		
Deferred pension outflows (GASB 68)	20,973,742	
Deferred OPEB outflows (GASB 75)	1,556,416	
Deferred charge on refunding	1,145,673	
Deferred pension inflows (GASB 68)	(1,020,263)	
Deferred OPEB inflows (GASB 67)	(129,886)	22,525,682
Internal service funds are used by management to charge the costs of certain activities, including self-insurance, to appropriate function in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		11,267,612
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(1,382,166)
Long-term liabilities, including bonds payable and net pension liability are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:		
General and certificates of obligation bonds and tax notes	(254,210,000)	
Bond premiums	(23,071,416)	
Capital leases	(4,552,459)	
Net pension liability	(49,527,143)	
Total OPEB liability	(18,146,794)	
Compensated absences	(12,258,749)	(361,766,561)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 604,425,445

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

CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental
REVENUES					
Property taxes	$ 78,827,663	$ 35,746,344	$ -	$ 1,545,436	$ 116,119,443
Sales and use taxes	26,624,690	-	-	4,099,325	30,724,015
Franchise fees	16,071,697	-	-	-	16,071,697
Other taxes and fees	-	-	-	340,802	340,802
Licenses and permits	10,621,061	-	-	-	10,621,061
Intergovernmental	1,211,587	-	4,927,033	1,885,138	8,023,758
Charges for services	13,286,467	-	690,859	33,095	14,010,421
Fines and forfeitures	1,875,590	-	-	101,895	1,977,485
Investment income	2,933,311	615,019	4,301,535	382,693	8,232,558
Contributions	479,138	-	13,898,366	63,698	14,441,202
Miscellaneous	460,907	-	227,287	3,902	692,096
Total Revenues	152,392,111	36,361,363	24,045,080	8,455,984	221,254,538
EXPENDITURES					
Current:					
General government	30,795,505	-	1,846,071	1,339,010	33,980,586
Police	35,571,578	-	-	235,941	35,807,519
Fire	30,284,799	-	-	520,609	30,805,408
Libraries	3,613,748	-	-	10,734	3,624,482
Development	11,010,882	-	-	779,042	11,789,924
Parks and recreation	14,285,713	-	17,326	5,796	14,308,835
Public works	11,615,586	-	7,992,693	-	19,608,279
Debt Service:					
Principal retirement	850,736	25,150,000	-	-	26,000,736
Interest and fiscal charges	154,062	10,756,717	520,954	-	11,431,733
Capital expenditures:					
General government	8,034,023	-	5,817,891	113,411	13,965,325
Police	2,117,722	-	1,905,296	50,114	4,073,132
Fire	2,735,427	-	5,909,589	87,207	8,732,223
Libraries	-	-	2,337,301	-	2,337,301
Development	184,195	-	-	7,095	191,290
Parks and recreation	805,904	-	9,993,657	-	10,799,561
Public works	1,423,876	-	13,131,225	-	14,555,101
Total Expenditures	153,483,756	35,906,717	49,472,003	3,148,959	242,011,435
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,091,645)	454,646	(25,426,923)	5,307,025	(20,756,897)
OTHER FINANCING SOURCES (USES)					
Issuance of long-term debt	-	15,534,126	43,520,874	-	59,055,000
Issuance of capital lease	4,600,000	-	-	-	4,600,000
Deposit to bond refunding escrow account	-	(17,041,496)	-	-	(17,041,496)
Premium on issuance of debt	-	1,466,500	6,218,225	-	7,684,725
Proceeds from sale of property	332,871	-	-	-	332,871
Transfers in	6,915,000	-	5,742,620	113,200	12,770,820
Transfers out	(4,068,820)	-	-	(4,119,010)	(8,187,830)
Total Other Financing Sources (Uses)	7,779,051	(40,870)	55,481,719	(4,005,810)	59,214,090
Net change in fund balances	6,687,406	413,776	30,054,796	1,301,215	38,457,193
Fund balances, beginning of year	76,892,614	5,550,814	166,550,167	16,756,068	265,749,663
Fund Balances, End of Year	$ 83,580,020	$ 5,964,590	$ 196,604,963	$ 18,057,283	$ 304,206,856

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

CITY OF MCKINNEY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Net change in fund balances – total governmental funds		$ 38,457,193
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.		54,653,933
Governmental funds do not recognize contributed capital assets. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.		16,995,302
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(43,490,479)
Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:		
General and certificates of obligation bonds	25,150,000	
Capital lease	850,736	26,000,736
The issuance of long-term debt, such as bonds and capital leases, are shown as "Other Sources" and “Other Uses” in the governmental funds, but are shown on the statement of net position as debt obligations with corresponding balances amortized over the life of the bonds. Issuance of long-term debt and recognition and amortization of these differences consist of the following:		
Issuance of long term-debt	(42,013,504)	
Issuance of capital lease	(4,600,000)	
Recognition of premium on debt issuance	(7,684,725)	
Amortization of refunding loss	(271,235)	
Amortization of bond premium	3,170,070	(51,399,394)
Current year pension and OPEB expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities.		(5,258,042)
Current year change in long-term liability for compensated absences does not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(379,838)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(61,043)
Internal service funds are used by management to share the costs of certain activities including self-insurance to individual funds.		1,542,756
In the governmental fund financial statements the proceeds from sale of assets are shown as an increase in financial resources. In the government-wide financial statements, the gain or loss is calculated and reported.		(16,218,846)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. This is the net change in these revenues for the year.		(879,659)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 19,962,619

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

CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET (GAAP BASIS) AND ACTUAL GENERAL FUND GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget- Positive (Negative)
REVENUES				
Property taxes	$ 78,538,131	$ 78,567,309	$ 78,827,663	$ 260,354
Sales and use taxes	26,821,000	26,598,433	26,624,690	26,257
Franchise fees	15,970,125	16,465,548	16,071,697	(393,851)
Licenses and permits	12,120,300	11,744,700	10,621,061	(1,123,639)
Intergovernmental	1,369,258	1,194,735	1,211,587	16,852
Charges for services	12,223,676	12,683,620	13,286,467	602,847
Fines and forfeitures	1,935,500	2,004,264	1,875,590	(128,674)
Investment income	1,880,000	2,747,700	2,933,311	185,611
Contributions	463,844	473,144	479,138	5,994
Miscellaneous	340,048	440,400	460,907	20,507
Total Revenues	151,661,882	152,919,853	152,392,111	(527,742)
EXPENDITURES				
General government	32,511,850	38,821,425	38,829,528	(8,103)
Police	39,042,530	38,412,361	37,689,300	723,061
Fire	33,787,256	33,047,308	34,025,024	(977,716)
Libraries	3,599,247	3,715,086	3,613,748	101,338
Development	12,407,548	12,370,687	11,195,077	1,175,610
Parks and recreation	16,026,105	16,126,738	15,091,617	1,035,121
Public works	14,207,456	14,390,637	13,039,462	1,351,175
Total Expenditures	151,581,992	156,884,242	153,483,756	3,400,486
Excess (Deficiency) of Revenues Over (Under) Expenditures	79,890	(3,964,389)	(1,091,645)	2,872,744
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	282,000	282,000	332,871	50,871
Issuance of capital lease	-	-	4,600,000	4,600,000
Transfers in	2,894,764	6,758,824	6,915,000	156,176
Transfers out	(3,885,779)	(4,146,160)	(4,068,820)	77,340
Total Other Financing Sources (Uses)	(709,015)	2,894,664	7,779,051	4,884,387
Net change in fund balance	(629,125)	(1,069,725)	6,687,406	7,757,131
Fund balance, beginning of year	76,892,614	76,892,614	76,892,614	-
Fund Balance, End of Year	$ 76,263,489	$ 75,822,889	$ 83,580,020	$ 7,757,131

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

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CITY OF MCKINNEY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019

	Business-type Activities- Enterprise Funds				Governmental Activities
	Water and Wastewater	Airport	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	$ 31,853,770	$ 3,648,735	$ 16,295,841	$ 51,798,346	$ 12,080,274
Investments	11,494,625	-	1,999,020	13,493,645	-
Restricted assets:					
Cash and cash equivalents	104,895,891	4,348,013	10,000	109,253,904	70,000
Accrued interest receivable	75,207	-	10,049	85,256	-
Receivables (net of allowance for uncollectibles)	14,011,378	53,390	1,989,210	16,053,978	543,213
Accrued interest receivable	78,331	-	-	78,331	-
Due from other funds	15,239	-	-	15,239	-
Notes receivable - interfund	-	-	5,303,545	5,303,545	-
Inventory	501,932	120,415	-	622,347	-
Prepaid items	884,881	10,301,386	260,900	11,447,167	-
Total Current Assets	163,811,254	18,471,939	25,868,565	208,151,758	12,693,487
Noncurrent assets:					
Restricted assets:					
Investments	19,896,785	-	-	19,896,785	-
Total Restricted Assets	19,896,785	-	-	19,896,785	-
Capital assets:					
Land	10,251,079	41,549,244	566,509	52,366,832	-
Buildings	11,972,381	32,028,578	1,653,284	45,654,243	-
Improvements other than buildings	468,464,913	65,581,408	2,912,297	536,958,618	-
Machinery and equipment	11,637,447	1,621,896	2,431,542	15,690,885	-
Construction in progress	49,821,509	479,719	612	50,301,840	-
Less accumulated depreciation	(123,981,424)	(35,476,124)	(4,701,980)	(164,159,528)	-
Total Capital Assets (Net of Accumulated Depreciation)	428,165,905	105,784,721	2,862,264	536,812,890	-
Total Noncurrent Assets	448,062,690	105,784,721	2,862,264	556,709,675	-
Total Assets	611,873,944	124,256,660	28,730,829	764,861,433	12,693,487
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension outflows	1,694,772	392,817	553,522	2,641,111	-
Deferred OPEB outflows	88,064	20,412	28,763	137,239	-
Deferred charge for refunding	602,406	-	-	602,406	-
Excess consideration provided for acquisition	-	4,749,577	-	4,749,577	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 2,385,242	$ 5,162,806	$ 582,285	$ 8,130,333	$ -

(continued)

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

	Business-type Activities- Enterprise Funds				Governmental Activities
	Water and Wastewater	Airport	Other Enterprise Funds	Total	Internal Service Funds
LIABILITIES					
Current liabilities:					
Accounts payable	$ 3,741,079	$ 237,842	$ 387,369	$ 4,366,290	$ 1,369,193
Other accrued liabilities	463,997	71,183	945,522	1,480,702	56,682
Due to other funds	357,885	-	51,921	409,806	-
Note payable- interfund, current	-	355,350	52,292	407,642	-
Compensated absences	47,625	9,021	16,507	73,153	-
Accrued interest payable	240,840	-	-	240,840	-
Total Current Liabilities Unrestricted	4,851,426	673,396	1,453,611	6,978,433	1,425,875
LIABILITIES (PAYABLE FROM RESTRICTED ASSETS)					
Accounts payable	2,883,616	82,506	-	2,966,122	-
Revenue bonds payable, current	9,746,520	-	-	9,746,520	-
Other accrued liabilities	2,107,796	-	-	2,107,796	-
Deposits	3,905,684	130,858	10,000	4,046,542	-
Total Current Liabilities (Payable from Restricted Assets)	18,643,616	213,364	10,000	18,866,980	-
Total Current Liabilities	23,495,042	886,760	1,463,611	25,845,413	1,425,875
NONCURRENT LIABILITIES					
Compensated absences	704,745	133,491	244,257	1,082,493	-
Note payable- interfund	-	4,319,150	576,753	4,895,903	-
Revenue bonds, certificates of obligation payable	138,546,466	-	-	138,546,466	-
Net pension liability	4,002,011	927,592	1,307,079	6,236,682	-
Total OPEB liability	1,301,344	301,628	425,027	2,027,999	-
Total Noncurrent Liabilities	144,554,566	5,681,861	2,553,116	152,789,543	-
TOTAL LIABILITIES	168,049,608	6,568,621	4,016,727	178,634,956	1,425,875
DEFERRED INFLOWS OF RESOURCES					
Deferred pension inflows	82,303	19,076	26,881	128,260	-
NET POSITION					
Net investment in capital assets	346,676,741	105,702,215	2,862,264	455,241,220	-
Restricted for:					
Use of impact fees	5,913,858	-	-	5,913,858	-
Debt service	7,974,994	-	-	7,974,994	-
Unrestricted	85,561,682	17,129,554	22,407,242	125,098,478	11,267,612
TOTAL NET POSITION	$ 446,127,275	$ 122,831,769	$ 25,269,506	$ 594,228,550	$ 11,267,612

CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-type Activities – Enterprise Funds				Governmental Activities
	Water and Wastewater	Airport	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	$ 92,032,171	$ 9,639,761	$ 12,610,166	$ 114,282,098	$ 26,334,716
Intergovernmental	-	50,000	-	50,000	-
Miscellaneous	58,571	-	115,587	174,158	552,678
Total Operating Revenues	92,090,742	9,689,761	12,725,753	114,506,256	26,887,394
OPERATING EXPENSES					
Personnel services	9,389,563	2,158,748	2,878,128	14,426,439	1,044,296
Materials, supplies and services	577,673	3,875,666	127,479	4,580,818	24,727,998
Maintenance	2,351,603	262,604	321,215	2,935,422	4,425
Purchase of water	54,249,763	-	-	54,249,763	-
Contract payments	5,229,837	500,482	7,224,379	12,954,698	-
Office rental	171,178	-	-	171,178	-
Utilities	1,058,680	166,430	2,839	1,227,949	38,669
Depreciation and amortization	10,680,357	4,397,846	166,531	15,244,734	28,480
Other	2,790,403	647,256	118,645	3,556,304	18,734
Total Operating Expenses	86,499,057	12,009,032	10,839,216	109,347,305	25,862,602
Operating Income (Loss)	5,591,685	(2,319,271)	1,886,537	5,158,951	1,024,792
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	5,257,648	165,352	486,199	5,909,199	337,601
Interest and fiscal charges	(5,047,837)	(74,500)	-	(5,122,337)	-
Gain on dissolution of fund	-	-	-	-	360,427
Gain (loss) from disposal of assets	41,566	-	9,343	50,909	(23,888)
Total Nonoperating Revenues (Expenses)	251,377	90,852	495,542	837,771	674,140
Income (Loss) Before Contributions and Transfers	5,843,062	(2,228,419)	2,382,079	5,996,722	1,698,932
Contributions	18,808,395	20,204	-	18,828,599	-
Transfers in	-	213,000	77,789	290,789	-
Transfers out	(4,089,469)	-	(628,134)	(4,717,603)	(156,176)
Change in Net Position	20,561,988	(1,995,215)	1,831,734	20,398,507	1,542,756
Net Position, Beginning of Year	425,565,287	124,826,984	23,437,772	573,830,043	9,724,856
Net Position, End of Year	$ 446,127,275	$ 122,831,769	$ 25,269,506	$ 594,228,550	$ 11,267,612

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

CITY OF MCKINNEY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-type Activities				Governmental Activities
	Water and Wastewater	Airport	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
CASH FROM OPERATING ACTIVITIES					
Cash received from customers and users	$ 89,502,716	$ 9,653,904	$ 12,601,500	$ 111,758,120	$ 26,167,733
Other operating revenues (expenses)	58,571	82,291	114,178	255,040	552,678
Cash payments to employees for services	(7,241,853)	(1,650,969)	(2,182,086)	(11,074,908)	(986,127)
Cash payments to suppliers for goods and services	(64,270,153)	(6,108,542)	(7,841,767)	(78,220,462)	(24,400,401)
Payments for services provided by other funds	(2,319,068)	(465,430)	(591,836)	(3,376,334)	-
Net Cash Provided by Operating Activities	15,730,213	1,511,254	2,099,989	19,341,456	1,333,883
CASH FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	213,000	77,789	290,789	-
Transfers to other funds	(3,962,738)	-	(628,134)	(4,590,872)	(180,064)
Net Cash Provided by (Used in) Noncapital Financing Activities	(3,962,738)	213,000	(550,345)	(4,300,083)	(180,064)
CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds	(6,305,000)	-	-	(6,305,000)	-
Issuance of bonds	36,422,793	-	-	36,422,793	-
Principal paid on interfund loans	-	(325,500)	(51,392)	(376,892)	-
Payments received on loans to component units	-	-	815,999	815,999	-
Proceeds from advances from other funds	-	-	376,892	376,892	-
Interest and fiscal charges paid on debt	(6,479,804)	(74,500)	-	(6,554,304)	-
Acquisition and construction of capital assets	(32,983,116)	(699,773)	(679,065)	(34,361,954)	-
Proceeds from the sale of assets	41,566	-	9,343	50,909	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(9,303,561)	(1,099,773)	471,777	(9,931,557)	-
CASH FROM INVESTING ACTIVITIES					
Purchase of investments	(3,796,024)	-	-	(3,796,024)	4,972,960
Proceeds from sale and maturities of investments	29,800,000	-	-	29,800,000	-
Purchase of investments	-	-	(33,034)	(33,034)	-
Investment income	5,325,210	165,352	486,199	5,976,761	337,601
Net Cash Provided by Investing Activities	31,329,186	165,352	453,165	31,947,703	5,310,561
Net Increase in Cash and Cash Equivalents	33,793,100	789,833	2,474,586	37,057,519	6,464,380
Cash and Cash Equivalents, Beginning of Year	102,956,561	7,206,915	13,831,255	123,994,731	5,685,894
Cash and Cash Equivalents, End of Year	$ 136,749,661	$ 7,996,748	$ 16,305,841	$ 161,052,250	$ 12,150,274
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION					
Cash and cash equivalents	$ 31,853,770	$ 3,648,735	$ 16,295,841	$ 51,798,346	$ 12,080,274
Restricted cash and cash equivalents	104,895,891	4,348,013	10,000	109,253,904	70,000
Total Cash and Cash Equivalents	$ 136,749,661	$ 7,996,748	$ 16,305,841	$ 161,052,250	$ 12,150,274
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ 5,591,685	$ (2,319,271)	$ 1,886,537	$ 5,158,951	$ 1,024,792
ADJUSTMENT TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Depreciation and amortization	10,680,357	4,397,846	166,531	15,244,734	28,480
(Increases) decreases in assets and deferred outflows:					
Accounts receivable	(2,774,241)	(20,629)	(10,075)	(2,804,945)	(166,983)
Prepaid expenses	(884,481)	(298,774)	(259,627)	(1,442,882)	13,983
Due from other governments	-	32,291	-	32,291	9,743
Inventory	(172,114)	(24,002)	-	(196,116)	-
Deferred pension outflows	(874,300)	(202,647)	(285,551)	(1,362,498)	(170,930)
Deferred OPEB outflows	(34,183)	(7,922)	(11,165)	(53,270)	(3,928)
Increases (decreases) in liabilities and deferred inflows:					
Accounts payable	1,217,085	12,104	(356,185)	873,004	365,699
Accrued liabilities	1,366,483	(443,278)	466,878	1,390,083	-
Due to other funds	-	-	22,701	22,701	-
Deposits	244,786	34,772	-	279,558	-
Liability for compensated absences	75,559	50,936	57,455	183,950	13,919
Net pension liability	1,581,346	366,527	516,476	2,464,349	181,706
Total OPEB liability	137,731	31,924	44,984	214,639	15,826
Deferred pension inflows	(425,500)	(98,623)	(138,970)	(663,093)	21,576
Total adjustments	10,138,528	3,830,525	213,452	14,182,505	309,091
Net Cash Provided by Operating Activities	$ 15,730,213	$ 1,511,254	$ 2,099,989	$ 19,341,456	$ 1,333,883
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES					
Contributions of capital assets	$ 18,808,395	$ 20,204	$ -	$ 18,828,599	$ -

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

CITY OF MCKINNEY, TEXAS
STATEMENT OF AGENCY ASSETS AND LIABILITIES
FIDUCIARY FUND
SEPTEMBER 30, 2019

	Agency Fund
	BB Owen Park
ASSETS	
Cash and cash equivalents	$ 1,227,756
Total Assets	$ 1,227,756
LIABILITIES	
Developer escrows	$ 1,227,756
Total Liabilities	$ 1,227,756

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

CITY OF MCKINNEY, TEXAS
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2019

	McKinney Economic Dev. Corp	McKinney Community Dev. Corp	McKinney Convention & Visitors Bureau	McKinney Main Street Corporation	Total
ASSETS					
Cash and cash equivalents	$ 8,939,397	$ 54,298,826	$ 66,310	$ 928,844	$ 64,233,377
Investments	4,003,960	3,130,157	-	-	7,134,117
Receivables (net of allowance for uncollectibles)	2,571,145	2,565,066	-	1,390	5,137,601
Prepaid items	5,528	2,977	3,800	17,189	29,494
Restricted assets- cash and cash equivalents	1,790,687	-	-	-	1,790,687
Capital assets, non depreciable	66,905,887	630,953	-	-	67,536,840
Capital assets, net of accumulated depreciation	30,353	133,536	-	52,715	216,604
Total Assets	84,246,957	60,761,515	70,110	1,000,138	146,078,720
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension outflows	290,582	46,804	85,420	-	422,806
Deferred OPEB outflows	15,099	2,432	4,438	-	21,969
Deferred charge on refunding	61,874	-	-	-	61,874
Total Deferred Outflows of Resources	367,555	49,236	89,858	-	506,649
LIABILITIES					
Accounts payable	92,240	9,582	9,995	686,725	798,542
Other accrued liabilities	38,974	10,790	15,836	-	65,600
Accrued interest payable	75,391	88,904	-	-	164,295
Noncurrent liabilities					
Due within one year					
Compensated absences	5,082	2,558	4,086	-	11,726
Bonds payable	3,015,000	1,010,000	-	-	4,025,000
Due in more than one year					
Compensated absences	75,197	37,847	60,458	-	173,502
Bonds payable	23,730,000	19,380,000	-	-	43,110,000
Net pension liability	686,178	110,520	201,710	-	998,408
Total OPEB liability	223,126	35,938	65,591	-	324,655
Total Liabilities	27,941,188	20,686,139	357,676	686,725	49,671,728
DEFERRED INFLOWS OF RESOURCES					
Deferred pension inflows	14,112	2,273	4,148	-	20,533
Total Deferred Inflows of Resources	14,112	2,273	4,148	-	20,533
NET POSITION					
Net investment in capital assets	41,778,098	(19,625,512)	-	52,715	22,205,301
Restricted for debt service	1,790,687	-	-	-	1,790,687
Unrestricted	13,090,427	59,747,851	(201,856)	260,698	72,897,120
Total Net Position	$ 56,659,212	$ 40,122,339	$ (201,856)	$ 313,413	$ 96,893,108

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

CITY OF MCKINNEY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
McKinney Economic Development Corporation	$ 7,571,919	$ -	$ -	$ -
McKinney Community Development Corporation	4,660,251	-	-	-
McKinney Convention & Visitors Bureau	755,309	-	712,000	-
McKinney Main Street Corporation	1,697,848	1,604,729	80,214	-
Total Component Units	$ 14,685,327	$ 1,604,729	$ 792,214	$ -
General revenues				
Sales taxes				
Investment income				
Gain on sale of asset				
Miscellaneous				
Special item/loss on sale of assets				
Total General Revenues and Special Item				
Change in Net Position				
Net Position, Beginning of Year				
Net Position, End of Year				

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

Net (Expense) Revenue and Changes in Net Position				
Component Units				
McKinney Economic Dev. Corp	McKinney Community Dev. Corp	McKinney Convention & Visitors Bureau	McKinney Main Street Corporation	Total
$ (7,571,919)	$ -	$ -	$ -	$ (7,571,919)
-	(4,660,251)	-	-	(4,660,251)
-	-	(43,309)	-	(43,309)
-	-	-	(12,905)	(12,905)
$ (7,571,919)	$ (4,660,251)	$ (43,309)	$ (12,905)	$ (12,288,384)
$ 14,251,055	$ 14,251,055	$ -	$ -	$ 28,502,110
416,242	1,376,011	244	-	1,792,497
1,891,168	-	-	-	1,891,168
29,783	-	4,261	-	34,044
-	(5,020,112)	-	-	(5,020,112)
16,588,248	10,606,954	4,505	-	27,199,707
9,016,329	5,946,703	(38,804)	(12,905)	14,911,323
47,642,883	34,175,636	(163,052)	326,318	81,981,785
$ 56,659,212	$ 40,122,339	$ (201,856)	$ 313,413	$ 96,893,108

McKINNEY®
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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of McKinney (City) was incorporated in 1848. The City operates under a Council- Manager form of government and provides the following services as authorized by its charter: public safety, public works, public health and welfare, culture, recreation and waterworks.

The City reports in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses and other information considered important to gaining a clear picture of the City's financial activities for the fiscal year ended September 30, 2019.

A. Financial Statement Presentation

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

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

The City also presents Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, budgetary comparison statements are presented that compare the original adopted and final amended budgets with actual results for adopted funds.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. The City is governed by an elected mayor and six-member council. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the City's operations; therefore, data from these units are combined with data of the City. Discrete component units are legally separate entities that are not considered part of the City's operations; therefore, data from these units are shown separately from the data of the City.

Blended Component Units

The McKinney Urban Transit District (MUTD) is a blended component unit presented as a non-major special revenue fund of the City. The governing body of the MUTD consists of the seven City of McKinney councilmembers and one representative from each of the district members including the Collin County Commissioners' Court, the City of Celina, the City of Lowry Crossing, the City of Melissa, the City of Princeton and the City of Prosper. The MUTD budget is subject to approval of the City of McKinney Council. The MUTD budget is financed primarily by state/federal grants and member contributions and has a September 30 year-end. The purpose of the MUTD is to provide transportation to residents of McKinney, Melissa, Princeton, Lowry Crossing, Celina and Prosper who are 65 years of age or older or are disabled.

The McKinney Housing Finance Corporation (MHFC) is a blended component unit presented as a non-major special revenue fund. The governing body of the MHFC is appointed by the City Council and the MHFC's budget is subject to approval of the City Council. The MHFC finances the cost of residential ownership and development on behalf of the City to provide decent, safe and sanitary housing for City residents at affordable prices. MHFC budget is financed primarily by developer fees and has a September 30 year-end.

Discretely Presented Component Units

The McKinney Economic Development Corporation (MEDC) is a discretely presented component unit in the basic financial statements. The governing body of the MEDC is appointed by the City Council and the MEDC's operating budget is subject to approval of the City Council. The City does not have a voting majority of the corporation. The purpose of the MEDC is to aid, promote and further the economic development within the City. The MEDC is financed with a voter-approved half-cent city sales tax. The MEDC has a September 30 year-end. Under a contract with the MEDC, the City performs financial services for the MEDC. There are no separately issued financial statements of the MEDC, which is reported as a governmental fund.

The McKinney Community Development Corporation (MCDC) is a discretely presented component unit in the basic financial statements. The MCDC is governed by a seven-member board appointed by the City Council and at least three board members cannot be City employees or Council members. The City does not have a voting majority of the corporation. The purpose of the MCDC is to identify and fund public projects to maintain or enhance the quality of life reflecting hometown values and priorities, visionary planning, balanced needs, and fiscal responsibility for current and future residents, visitors and businesses of our community. The MCDC is financed with a voter-approved half-cent city sales tax. The MCDC has a September 30 year-end. Under a contract with the MCDC, the City performs financial services for the MCDC. There are no separately issued financial statements of the MCDC, which is reported as a governmental fund.

The McKinney Main Street (MMS) is a discretely presented component unit in the basic financial statements. The governing body of MMS is appointed by the City Council and the MMS's budget is subject to approval of the City Council. MMS budget is financed primarily by events held in the Downtown McKinney area. MMS is a separate legal entity from the City and its sole purpose is to promote McKinney's vibrant downtown area. MMS has a September 30 year-end. MMS financial services are decentralized from the City. There are no separately issued financial statements of MMS.

The McKinney Convention & Visitors Bureau (MCVB) is a discretely presented component unit in the basic financial statements. The governing body of the MCVB is appointed by the City Council and the MCVB's budget is subject to approval of the City Council. The MCVB budget is financed primarily by hotel/motel occupancy taxes. The MCVB is a separate legal entity from the City and its sole purpose is to promote McKinney as the destination of choice. The MCVB has a September 30 year-end. Under a contract with the MCVB, the City performs financial services for the MCVB. There are no separately issued financial statements of the MCVB. All discretely presented component units were deemed to be major component units for presentation purposes.

C. Government-Wide and Fund Financial Statements

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

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are franchise fees and other charges between the government's water and wastewater function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 wastewater enterprise fund, airport fund, and other proprietary funds are charges to customers for sales and services. The water and wastewater fund also recognize, as operating revenue, the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition are reported as nonoperating revenues and expenses.

Internal service funds are used to allocate associated costs of centralized services on a cost-reimbursement basis. The services provided to other City departments include providing risk financing and insurance-related activities and fleet maintenance.

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

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

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

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

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

E. Fund Accounting

The following major funds are used by the City:

1. Governmental Funds:

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

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

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

c. **The Capital Projects Fund** consists of various types of financial resources and is utilized in the acquiring or constructing of capital infrastructure within the City. These include facilities, streets, stormwater drainage, libraries, public safety, parks, recreation and technology.

Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

2. Proprietary Funds:

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

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

a. **The Water and Wastewater Fund** is used to account for the operations of the water and wastewater system.

b. **The Airport Fund** is used to account for the operations of the airport.

Other Proprietary Funds is a summarization of all of the nonmajor proprietary funds.

Two Internal Service Funds are used to account for the financing of services provided by one department to other departments of the City on a cost reimbursement basis. The insurance claims self-funded program of the City is accounted for in the **Insurance and Risk Management Fund**. Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims is determined by estimating the amount which will ultimately be paid to each claimant. The provision for claims incurred but not yet reported is estimated based on City experience since the inception of the programs and data provided by actuarial consultants. Costs associated with maintenance of the City's operation and service vehicles are accounted for in the **Fleet Maintenance Fund**.

3. Agency Fund:

The City is the trustee, or fiduciary, for certain amounts held on behalf of developers, property owners, and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position. The activities of these funds are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported are used for their intended purpose.

F. Cash, Cash Equivalents and Investments

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

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 may invest in certificates of deposit, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements. Investments are recorded at amortized cost, and at fiscal year-end investments with original maturity greater than one year are reflected at fair value on the accompanying government-wide and fund financial statements.

Realized gains and losses on investments that have been held during more than one fiscal year, and sold in the current, were included as a change in the fair value of the investments reported in the prior year and the current year. Management's intent is to hold all investments to maturity.

In accordance with GASB Statement No. 31, the City's general policy is to report short-term treasury securities, U.S. government backed securities which have a remaining term of one year or less at time of purchase, and money market mutual funds at amortized costs.

G. Inventories and Prepaid Items

Inventory is valued at cost (first-in, first-out). The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased. Reported inventories are also classified as nonspendable fund balance, which indicates that they do not constitute "available, spendable resources" even though they are a component of fund balance. The City is not required to maintain a minimum level of inventory. Inventories in the Proprietary Funds consist of supplies and fuel and are recorded at the lower of cost or market.

Prepaid balances are for payments made by the City for which benefits extend beyond September 30, 2019, and the related nonspendable fund balance amount has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. The cost of governmental fund type prepaid balances is recorded as an expenditure when consumed rather than when purchased.

H. Interfund Receivables and Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts and are reported as "due to/from other funds." Long-term advances between funds are reported as "advances to/from other funds" and represent the noncurrent portion of interfund loans.

Legally authorized transfers are treated as transfers and are included in the results of operations of both governmental and proprietary funds.

I. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The Utility Capital Projects Fund is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The Revenue Debt Service Fund is used to segregate resources accumulated for debt service payments over the next twelve months. The Revenue Bond Reserve Fund is used to report resources set aside to make up potential future deficiencies in the Revenue Debt Service Fund. The Revenue Bond Reserve Fund is required to reserve an amount not less than the average annual requirement for the payment of principal and interest on all the revenue bonds.

Also included in the restricted assets are capital recovery fees that are, by law, restricted to the projects these funds may be used to support. The Utility Development Impact Fee Fund is used to segregate these resources and to account for the use of these funds.

Customer deposits received for water and wastewater service are, by law, to be considered restricted assets. These activities are included in the Water and Wastewater Enterprise Fund.

The Utility Capital Projects Fund, Revenue Debt Service Fund, Revenue Bond Reserve Fund, and Utility Development Impact Fee Funds are included in the Water and Wastewater column on the proprietary funds statements.

J. 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 two years. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Building / Structures	10 - 50
Land Improvements	20
Water and Sewer System	50
Machinery and Equipment	3 - 15
Motor Vehicles	3 - 10
Traffic Signals	10 - 15
Parks	20
Service Animals	7 - 10
Storm Sewer	50
Streets	20

K. Compensated Absences

Vacation is earned in varying amounts up to a maximum of 200 hours per year for employees and 300 hours for fire shift personnel with 20 years or more of service. Unused vacation may be carried forward from one year to the next and is limited to 300 hours for employees and 450 hours for fire shift personnel. Sick leave is accrued by employees at a rate of 11.37 hours per month and by fire shift personnel at a rate of 15.4 hours per month.

Compensation for accrued sick leave is paid upon separation up to a maximum of 160 hours for employees (excluding fire and sworn police personnel) with 5 consecutive years of service. Qualifying fire personnel are eligible for varying amounts of sick leave up to a maximum of 1080 hours after 20 years of service. Qualifying sworn police personnel are eligible for varying amounts of sick leave up to a maximum of 770 hours after 20 years of service.

All vacation and sick leave pay is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Deferred charges for refunding are amortized using the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is recorded as deferred outflows of resources.

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

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

Allocations of pension items to the City's enterprise funds and component units are determined on the basis of employee payroll funding.

N. Defined Benefit Other Postemployment Benefit Plans

The City has two single-employer defined benefit other postemployment benefit (OPEB) plans (Plans). For purposes of measuring the total OPEB liability of each OPEB plan, deferred outflows of resources and deferred inflows of resources related to each OPEB plan, and OPEB expense have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms for the Plans.

Governmental Activities, Business-type Activities and Component Units of the City reported the following total OPEB liability and deferred outflows of resources related to OPEBs as of September 30, 2019:

	Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
GOVERNMENTAL ACTIVITIES			
Retiree Health Care Plan	$ 16,104,870	$ 1,089,837	$ -
Supplemental Death Benefits Plan	2,041,924	466,579	129,886
	$ 18,146,794	$ 1,556,416	$ 129,886
BUSINESS-TYPE ACTIVITIES			
Retiree Health Care Plan	$ 2,027,999	$ 137,239	$ -
COMPONENT UNITS			
Retiree Health Care Plan	$ 324,655	$ 21,969	$ -

Allocations of OPEB items to the City's enterprise funds and component units are determined on the basis of full-time employee counts by department.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future reporting period(s) and so will not be recognized as an outflow of resources (expense/expenditure/reduction of net pension liability) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Excess consideration provided for acquisition – In November 2013, the City purchased the hangars, office building/terminal, miscellaneous furniture and fixture, and fixed base operations (FBO) from various related business entities at McKinney National Airport. This is the amount, net of amortization, which the City paid in excess of the fair value of the assets for the fixed base business operations. The deferred charges are being amortized over a period of 18 years.
- Pension contributions after measurement date – These contributions are deferred and reported as a reduction in net pension liability or increase in net pension asset in the year subsequent to their deferral.
- OPEB benefit and premium payments after measurement date – These benefit payments are deferred and reported as a reduction in total OPEB liability in the year subsequent to their deferral.
- Difference in projected and actual experience (pensions and OPEBs) – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period.
- Changes of Assumptions (pensions and OPEBs) – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized to pension expense over a closed five year period.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue or reduction in pension expense) until that time. The City has two types of items that qualify for reporting in this category in the government-wide financial statements. The difference in expected and actual experience and changes of assumptions are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period. In the fund financial statements, resources unavailable for revenue recognition are deferred and recognized as revenue when available.

P. Fund Equity

The City establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to observe the constraints imposed upon the use of the resources reported in governmental funds on accordance with GASB Statement No. 54. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned and Unassigned.

Nonspendable fund balance represents fund balance that is (a) not in a spendable form such as prepaid items or (b) legally or contractually required to be maintained intact such as an endowment.

Restricted fund balance consists of amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources as approved by the City Council or by their designated body or official.

Committed fund balances are self-imposed limitations set in place prior to the end of the fiscal period. These amounts can be used only for the specific purposes determined and approved by formal action of the City Council, which is the highest level of decision making authority for the City. The same level of formal action is required to remove the constraint.

Assigned fund balance consists of amounts that are subject to a purpose constraint that represents an intended use established by the City Council or the City Manager as defined in the Financial Policies.

Unassigned fund balance represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

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

The City will maintain a minimum fund balance reserve equal to three months of the total operating expenses of the General Fund. All fund balances are formally approved on an annual basis by the City Council.

Q. Change in Accounting Principles

The City has adopted and implemented the following GASB statements which have become effective for fiscal year 2019:

GASB Statement No. 83, *Certain Asset Retirement Obligations*

- This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Adoption of GASB 83 had no effect on the City's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

This Statement defines debt for purposes of financial statement disclosure and establishes disclosure requirements for additional information related to debt including balances of unused lines of credit, assets pledge as collateral for debt and significant contractual terms including what would happen in the event of default, significant termination events and any significant subjective acceleration clauses. Adoption of GASB 88 had no effect on the City's financial statements.

Future Adoption of Accounting Pronouncements

The GASB has issued the following potentially significant statements which the City has not yet adopted, and which require adoption subsequent to September 30, 2019.

Statement No.		Adoption Required
84	*Fiduciary Activities*	September 30, 2020
87	*Leases*	September 30, 2021
91	*Conduit Debt Obligations*	September 30, 2021

R. Consolidation of Governmental Funds

As of October 1, 2018, the Technology Improvement fund, a nonmajor governmental capital projects fund, was consolidated in the City's Capital Projects fund, a major governmental capital projects fund. This resulted in an increase in the Capital Project fund's beginning fund balance from $156,306,524 to $166,550,167 or $10,243,643 which was the ending fund balance of the Technology Improvement fund as of September 30, 2018.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. Each department submits to the City Manager a budget of estimated expenditures for the ensuing fiscal year no later than August 1. The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance publication and after the first Monday in September.

Prior to October 1, the budget is legally enacted through passage of an ordinance. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgetary control has been established at the detail level by line item activity for management control.

Budgeted amounts are as originally adopted, or as legally amended. The City Council may amend the budget by passing a budget appropriation ordinance. During fiscal year 2019, the total amendments to the original adopted budgeted amounts resulted in a $5,562,631 increase in budgeted General Fund expenditures and Transfers Out.

Budgets for the General Fund, Debt Service Fund, Capital Projects Fund and each nonmajor special revenue fund are legally adopted on a basis consistent with GAAP.

Departmental appropriations that have not been expended or encumbered by the departments at the end of the fiscal year will lapse. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

Encumbrances represent commitments related to unperformed contracts for goods or services. The commitments (purchase orders, contracts and other commitments for the expenditure of funds) are not treated as expenditures until a liability for payment is incurred but are merely used to facilitate effective budget control and cash planning and management.

(3) DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and investments as of September 30, 2019, consist of and are classified in the accompanying primary government and component unit financial statements as follows:

PRIMARY GOVERNMENT	
Statement of Net Position	
Cash and cash equivalents	$ 199,064,984
Investments	47,554,775
Restricted cash and cash equivalents	242,674,579
Restricted investments	19,896,785
	$ 509,191,123
Cash on hand	$ 11,276
Deposits with financial institutions, excluding certificates of deposit	24,378,733
Investments	484,801,114
Total Cash and Investments	$ 509,191,123

COMPONENT UNITS	
Statement of Net Position	
Cash and cash equivalents	$ 64,233,377
Investments	7,134,117
Restricted cash and cash equivalents	1,790,687
	$ 73,158,181
Cash on hand	$ 400
Deposits with financial institutions, excluding certificates of deposit	1,351,115
Investments	71,806,666
Total Cash and Investments	$ 73,158,181

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

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The City investment policy is designed to manage its exposure to interest rate risk by investing in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days, thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City policy has a weighted average maturity limit of 730 days in aggregate.

As of September 30, 2019, the City and Component Units had the following investments:

Investment Type	Carrying Amount	Weighted Average Maturity *
PRIMARY GOVERNMENT		
Certificates of deposit	$ 5,280,687	731
TexPool	99,581,833	28
TexPool Prime	27,830,567	37
LOGIC	96,620,133	35
TexasDaily	95,000,778	34
Texas CLASS	98,316,243	39
Federal Agency securities	61,476,658	1834
Municipal securities	694,215	1826
Total Fair Value	484,801,114	
DISCRETELY PRESENTED COMPONENT UNITS		
TexPool	3,413,130	28
TexPool Prime	18,800,979	37
LOGIC	14,939,611	35
TexasDaily	10,002,418	34
Texas CLASS	17,516,411	39
Federal Agency securities	7,134,117	1878
Total Fair Value	71,806,666	
Total Fair Value - Reporting Entity	$ 556,607,780	

* The table reflects the investment pool's weighted average maturity as it relates to the City's investment policy.

C. Disclosures Relating to Credit Risk

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

Investment Type	Carrying Amount	Minimum Legal Rating	Rating As of Year-end
PRIMARY GOVERNMENT			
Certificates of deposit	$ 5,280,687		
TexPool	99,581,833	AAA/AAA-m	AAAm
TexPool Prime	27,830,567	AAA/AAA-m	AAAm
LOGIC	96,620,133	AAA/AAA-m	AAAm
TexasDaily	95,000,778	AAA/AAA-m	AAAm
Texas CLASS	98,316,243	AAA/AAA-m	AAAm
Federal Agency securities	61,476,658	AAA	AAA
Municipal securities	694,215	A	A
Total Fair Value	484,801,114		
DISCRETELY PRESENTED COMPONENT UNITS			
TexPool	3,413,130	AAA/AAA-m	AAAm
TexPool Prime	18,800,979	AAA/AAA-m	AAAm
LOGIC	14,939,611	AAA/AAA-m	AAAm
TexasDaily	10,002,418	AAA/AAA-m	AAAm
Texas CLASS	17,516,411	AAA/AAA-m	AAAm
Federal Agency securities	7,134,117	AAA	AAA
Total Fair Value	71,806,666		
Total Fair Value - Reporting Entity	$ 556,607,780		

D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2019, the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

The City is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises 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. TexPool uses amortized cost rather than the market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the net asset value of TexPool shares.

The City invested in the Texas Local Government Investment Cooperative (LOGIC) Liquid Asset Portfolio. LOGIC is a public funds investment pool managed by Southwest Securities Group, Inc. LOGIC uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in LOGIC is the same as the net asset value of LOGIC shares.

The City is invested in Texas Daily, a portfolio of the TexasTERM Local Government Investment Pool (Pool) which was created by Texas local governments to provide investment programs tailored to the needs of Texas cities, counties, school districts and other public investors. The Pool is directed by an Advisory Board of experienced local government finance directors and treasurers. The Advisory Board contracts for services with professional service providers who are industry leaders in their field.

The City is invested in Texas Cooperative Liquid Assets Securities System (Texas CLASS) Trust. Texas CLASS was created as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code, or other laws of the State of Texas governing the investment of funds of a participant or funds under its control. Texas CLASS is administered by Cutwater Investor Services Corp. with Wells Fargo Bank Texas, NA as the Custodian. Texas CLASS is supervised by a Board of Trustees who are elected by the participants.

E. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year, to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due on October 1 immediately following the levy date and are delinquent after the following January 31st. Current tax collections for the year ended September 30, 2019, were 99.61% of the adjusted tax levy.

Allocations of property tax levy by purpose for 2019 and the preceding year are as follows (amounts per $100 assessed value):

	2019	2018
General Fund	$ 0.362389	$ 0.375611
Debt Service	0.162781	0.164588
	$ 0.525170	$ 0.540199

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within sixty days following the close of the fiscal year have been recognized as revenue at the fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios.

The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits the ad valorem tax rate to $2.50 per $100 assessed valuation. The City operates under a Home Rule Charter which also imposes a limit of $2.50 but does not prescribe a legal debt limit. The 2019 ad valorem tax rate of $0.525170 is in compliance with the rate limitation.

F. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds				
	General	Debt Service	Capital Projects	Nonmajor Funds	Total
Interest	$ 105,656	$ -	$ -	$ -	$ 105,656
Taxes	9,213,229	330,245	-	245,142	9,788,616
Accounts	3,890,261	3,209	12,437	1,449	3,907,356
Notes	1,156,052	-	-	-	1,156,052
Due from other governments	373,784	-	3,952,672	484,899	4,811,355
Gross receivables	14,738,982	333,454	3,965,109	731,490	19,769,035
Allowance for uncollectible accounts	(1,992,038)	-	-	-	(1,992,038)
Net Total Receivables	$ 12,746,944	$ 333,454	$ 3,965,109	$ 731,490	$ 17,776,997

	Business-type Activities			
	Water Wastewater	Airport	Other Enterprise Funds	Total
Customer accounts	$ 14,214,567	$ 53,390	$ 2,024,535	$ 16,292,492
Allowance for uncollectible accounts	(203,189)	-	(35,325)	(238,514)
Net Total Receivables	$ 14,011,378	$ 53,390	$ 1,989,210	$ 16,053,978
Accrued Interest Receivable	$ 153,538	$ -	$ 10,049	$ 163,587

The Enterprise Fund accounts receivable includes unbilled charges for services rendered at September 30, 2019. The water and wastewater fund also reported restricted interest receivables at year-end of $75,207.

In February of 2009, MEDC negotiated two loans from the City to redeem their 2002 tax exempt revenue bonds achieving a savings of $289,790 in interest expenses. A promissory note in the amount of $4,000,000 was executed with the City. The note is for eight years with a 4% interest on outstanding balances. During 2013, the City Council authorized the transfer of this note to the solid waste fund. In March 2013, City Council approved the re-structuring of this loan reducing the interest rate to 1% on outstanding balances effective fiscal year 2014. The balance of this note was paid in full as of September 30, 2019.

At September 30, 2019, accounts and notes receivable on the Statement of Net Position represent amounts owed to the MEDC for loans made to private businesses in the community. If certain contractual obligations are met by some of these private enterprises at a future date, a portion of the amounts owed may be forgiven. Due to the likelihood that the provisions would be met by the corporations the City has elected to expense the advance at the time of transfer. At September 30, 2019, accounts receivable includes $2,541,501 representing sales tax owed to MEDC and accrued interest of $29,644. Receivables as of year-end for MEDC were collected after year end; therefore, no allowances for uncollectible accounts have been recorded for September 30, 2019.

At September 30, 2019, accounts receivable include $2,541,501 representing sales tax owed to MCDC and accrued interest of $23,565. Receivables as of year-end for MCDC were collected after year end; therefore, no allowances for uncollectible accounts have been recorded for September 30, 2019.

At September 30, 2019, MMS accounts receivable include $1,390 for services provided. Receivables as of year-end for MMS were collected after year-end; therefore, no allowances for uncollectible accounts have been recorded for September 30, 2019.

G. Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital assets not being depreciated:					
Land	$ 37,790,222	$ 2,867,198	$ -	$ 1,927,876	$ 42,585,296
Works of art	32,000	55,600	-	-	87,600
Construction in progress	37,526,551	41,220,581	-	(7,618,865)	71,128,267
Total Capital Assets, Not Being Depreciated	75,348,773	44,143,379	-	(5,690,989)	113,801,163
Capital assets being depreciated:					
Buildings	180,319,961	6,749,315	(17,980,527)	1,250,000	170,338,749
Infrastructure	792,527,545	15,621,284	(5,742)	4,399,782	812,542,869
Machinery and equipment	65,133,866	5,130,256	(2,277,724)	41,207	68,027,605
Service animals	20,000	5,000	(5,000)	-	20,000
Total Capital Assets Being Depreciated	1,038,001,372	27,505,855	(20,268,993)	5,690,989	1,050,929,223
Less accumulated depreciation for:					
Buildings	(43,557,033)	(5,048,513)	1,795,903	-	(46,809,643)
Infrastructure	(415,731,174)	(33,050,318)	1,172	-	(448,780,320)
Machinery and equipment	(39,408,364)	(5,417,193)	2,252,322	-	(42,573,235)
Service animals	(6,721)	(2,935)	750	-	(8,906)
Total Accumulated Depreciation	(498,703,292)	(43,518,959)	4,050,147	-	(538,172,104)
Total Capital Assets Being Depreciated, Net	539,298,080	(16,013,104)	(16,218,846)	5,690,989	512,757,119
Governmental Activities, Capital Assets, Net	$ 614,646,853	$ 28,130,275	$ (16,218,846)	$ -	$ 626,558,282

BUSINESS-TYPE ACTIVITIES					
Capital assets not being depreciated:					
Land	$ 52,372,820	$ -	$ (44,515)	$ 38,527	$ 52,366,832
Construction in progress	23,661,866	35,671,266	(643,634)	(8,387,658)	50,301,840
Total Capital Assets, Not Being Depreciated	76,034,686	35,671,266	(688,149)	(8,349,131)	102,668,672
Capital assets being depreciated:					
Buildings	40,026,460	23,873	-	5,603,909	45,654,242
Infrastructure	518,003,539	16,209,856	-	2,745,222	536,958,617
Machinery and equipment	13,842,497	2,097,801	(249,411)	-	15,690,887
Total Capital Assets Being Depreciated	571,872,496	18,331,530	(249,411)	8,349,131	598,303,746
Less: accumulated depreciation for:					
Buildings	(12,378,578)	(1,488,056)	-	-	(13,866,634)
Infrastructure	(129,117,297)	(12,096,047)	-	-	(141,213,344)
Machinery and equipment	(8,060,785)	(1,267,564)	248,799	-	(9,079,550)
Total Accumulated Depreciation	(149,556,660)	(14,851,667)	248,799	-	(164,159,528)
Total Capital Assets Being Depreciated, Net	422,315,836	3,479,863	(612)	8,349,131	434,144,218
Business-type Activities, Capital Assets, Net	$ 498,350,522	$ 39,151,129	$ (688,761)	$ -	$ 536,812,890

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

GOVERNMENTAL ACTIVITIES	
Development	$ 246,835
Fire	2,199,002
Fleet maintenance	28,480
General government	3,379,132
Libraries	384,329
Parks and recreation	5,330,760
Police	1,605,536
Public works	30,344,885
Total Depreciation Expense Governmental Activities	$ 43,518,959
BUSINESS-TYPE ACTIVITIES	
Airport	$ 4,004,779
Golf Course	59,727
Solid Waste	60,194
Surface Water Drainage	46,610
Water and Wastewater	10,680,357
Total Depreciation Expense Business-type Activities	14,851,667
Airport	
Amortization of excess cost of consideration	393,067
Total Depreciation and Amortization Business-type Activities	$ 15,244,734

Capital asset activity for discretely presented component units for the year ended September 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
MEDC:					
Capital assets not being depreciated:					
Land	$ 67,043,105	$ -	$ (137,218)	$ -	$ 66,905,887
Total Capital Assets, Not Being Depreciated	67,043,105	-	(137,218)	-	66,905,887
Capital assets being depreciated:					
Improvements other than buildings	257,783	-	-	-	257,783
Machinery and equipment	28,231	32,856	-	-	61,087
Total Capital Assets Being Depreciated	286,014	32,856	-	-	318,870
Less: accumulated depreciation for:					
Improvements other than buildings	(257,783)	-	-	-	(257,783)
Machinery and equipment	(28,231)	(2,503)	-	-	(30,734)
Total Accumulated Depreciation	(286,014)	(2,503)	-	-	(288,517)
Total Capital Assets Being Depreciated, Net	-	30,353	-	-	30,353
Capital Assets, Net	$ 67,043,105	$ 30,353	$ (137,218)	$ -	$ 66,936,240
MCDC:					
Capital assets not being depreciated:					
Land	$ 4,970,062	$ -	$ (4,339,109)	$ -	$ 630,953
Total Capital Assets, Not Being Depreciated	4,970,062	-	(4,339,109)	-	630,953
Capital assets being depreciated:					
Infrastructure	2,823,107	-	(2,616,342)	-	206,765
Total Capital Assets Being Depreciated	2,823,107	-	(2,616,342)	-	206,765
Less: accumulated depreciation for:					
Infrastructure	(969,151)	(130,921)	1,026,843	-	(73,229)
Total Accumulated Depreciation	(969,151)	(130,921)	1,026,843	-	(73,229)
Total Capital Assets Being Depreciated, Net	1,853,956	(130,921)	(1,589,499)	-	133,536
Capital Assets, Net	$ 6,824,018	$ (130,921)	$ (5,928,608)	$ -	$ 764,489
MMS:					
Capital assets not being depreciated:					
Construction in progress	$ 17,000	$ 16,320	$ -	$ (33,320)	$ -
Total Capital Assets, Not Being Depreciated	17,000	16,320	-	(33,320)	-
Capital assets being depreciated:					
Machinery and equipment	41,581	-	-	33,320	74,901
Total Capital Assets Being Depreciated	41,581	-	-	33,320	74,901
Less: accumulated depreciation for:					
Machinery and equipment	(10,849)	(11,337)	-	-	(22,186)
Total Accumulated Depreciation	(10,849)	(11,337)	-	-	(22,186)
Total Capital Assets Being Depreciated, Net	30,732	(11,337)	-	33,320	52,715
Capital Assets, Net	$ 47,732	$ 4,983	$ -	$ -	$ 52,715

Capital Improvement Program Commitments

The City has active construction projects as of September 30, 2019. The projects include Governmental type activities such as: streets, parks, fire, police, facilities, library and stormwater construction. The commitment for Governmental Activities is being financed by General Obligation Bonds, Certificates of Obligation Bonds, impact fees, developer contributions and grants. The Water and Wastewater, and Airport are being financed by revenue bonds, Certificate of Obligation Bonds, impact fees, developer contributions and grants. The remaining commitment was expenditures not spent. Commitments for construction in progress are composed of the following:

	Project Budget Appropriation	Spent-to-date	Remaining Commitment
Governmental	$ 388,885,000	$ 86,306,932	$ 302,578,068
Water and Wastewater	190,706,513	53,261,469	137,445,044
Airport	25,965,268	6,129,719	19,835,549
Total	$ 605,556,781	$ 145,698,120	$ 459,858,661

H. Interfund Receivables, Payables and Transfers

A summary of interfund receivables and payables balances at September 30, 2019, is as follows:

Receivable Fund	Payable Fund	Amount	Primary Purpose
General Fund	Water/Wastewater Fund	$ 357,885	Franchise fee accrual
General Fund	Solid Waste	36,682	License fee accrual
General Fund	Nonmajor Governmental Funds	173,000	To cover cash shortage
Water/Wastewater Fund	Solid Waste	15,239	Sanitation billing accrual
		$ 582,806	

Fund level transfers during the year were as follows:

	Transfers In					
Transfers Out	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Airport Fund	Nonmajor Enterprise Funds	Total
General Fund	$ -	$ 3,742,620	$ 113,200	$ 213,000	$ -	$ 4,068,820
Nonmajor Governmental Funds	4,119,010	-	-	-	-	4,119,010
Water/Wastewater Fund	2,011,680	2,000,000	-	-	77,789	4,089,469
Nonmajor Enterprise Funds	628,134	-	-	-	-	628,134
Internal Service Funds	156,176	-	-	-	-	156,176
	$ 6,915,000	$ 5,742,620	$ 113,200	$ 213,000	$ 77,789	$ 13,061,609

Transfers are used to:

- Move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due.
- Move restricted amounts from borrowing to the debt service fund to establish mandatory reserve accounts.
- Move unrestricted general fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grants programs.
- Support monthly general and administrative fees which are expected to be paid from governmental activities.

The City's more significant transfers are listed below:

- Transfers of $2,639,814 were made from the enterprise funds to the general fund in order to support monthly general and administrative fees.
- A transfer of $3,867,310 was made from a nonmajor governmental fund to the general fund for a capital asset purchase.
- A transfer of $2,500,000 was made from the general fund and $2,000,000 from the water and wastewater fund to the capital projects fund for CIP projects.

Note Receivable

In January 2010, City Council approved a loan from the solid waste fund to the golf course fund. The loan was issued in the amount of $800,000. In March 2011, City Council approved an increase to the existing loan of $261,000. The balance of the note as of September 30, 2019, is $629,045. Under the loan agreement, the golf course fund will make interest payments annually at a rate of 1.75% through 2030.

In March 2017, City Council approved a loan from the solid waste fund to the airport fund. The loan was issued in the amount of $5,000,000. Under the loan agreement, the airport will make interest payments annually at a rate of 1.49% through 2028. As of September 30, 2019, the outstanding balance was $4,674,500.

I. Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. Tax, court, EMS and franchise fees which are reported as unavailable revenue in the governmental funds are recorded as revenue in the government-wide financial statements. Grant and miscellaneous revenues are reported as unearned in both the governmental fund and government-wide financial statements.

At the end of the current fiscal year, the various components of unavailable and unearned revenue reported in the governmental funds were as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Unavailable Revenue	Unearned Revenue
Tax revenue	$ 706,071	$ 311,638	$ -	$ 1,017,709	$ -
Court revenue	228,561	-	-	228,561	-
EMS revenue	691,718	-	-	691,718	-
Franchise fees	1,077,752	-	-	1,077,752	-
Miscellaneous	978,466	-	-	-	978,466
Grants	-	-	37,558	-	37,558
	$ 3,682,568	$ 311,638	$ 37,558	$ 3,015,740	$ 1,016,024

J. Long-term Debt

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2019, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNEMENTAL ACTIVITIES					
Bonds Payable					
General obligation bonds	$ 194,815,000	$ 51,495,000	$ (27,145,000)	$ 219,165,000	$ 24,050,000
Certificates of obligation	41,200,000	7,560,000	(13,715,000)	35,045,000	1,870,000
Tax notes	1,265,000	-	(1,265,000)	-	-
	237,280,000	59,055,000	(42,125,000)	254,210,000	25,920,000
Issuance premium	18,556,761	7,684,725	(3,170,070)	23,071,416	3,429,291
Total bonds payable	255,836,761	66,739,725	(45,295,070)	277,281,416	29,349,291
Capital lease	803,195	4,600,000	(850,736)	4,552,459	4,357,042
Net pension liability	29,957,095	31,390,932	(11,820,884)	49,527,143	-
Total OPEB liability	16,095,508	2,748,763	(697,477)	18,146,794	-
Compensated absences	11,878,911	1,082,328	(702,490)	12,258,749	775,978
Governmental Activities Long-term Debt	$ 314,571,470	$ 106,561,748	$ (59,366,657)	$ 361,766,561	$ 34,482,311
BUSINESS-TYPE ACTIVITIES					
Bonds payable:					
Water and wastewater revenue bonds	$ 107,590,000	$ 31,735,000	$ (6,305,000)	$ 133,020,000	$ 8,025,000
Issuance premium	12,062,993	4,687,793	(1,477,800)	15,272,986	1,721,520
Total bonds payable	119,652,993	36,422,793	(7,782,800)	148,292,986	9,746,520
Net pension liability	3,772,333	3,952,888	(1,488,539)	6,236,682	-
Total OPEB liability	1,813,360	267,910	(53,271)	2,027,999	-
Compensated absences	971,695	226,959	(43,008)	1,155,646	73,153
Business-type Activities: Long-term Debt	$ 126,210,381	$ 40,870,550	$ (9,367,618)	$ 157,713,313	$ 9,819,673

A summary for long-term debt transactions, including current portion, for the discretely presented component units for the year ended September 30, 2019 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MEDC:					
Bonds payable:					
Sales tax revenue bonds	$ 29,590,000	$ -	$ (2,845,000)	$ 26,745,000	$ 3,015,000
Note payable to primary government	815,999	-	(815,999)	-	-
Net pension liability	415,044	434,908	(163,774)	686,178	-
Total OPEB liability	199,511	29,476	(5,861)	223,126	-
Compensated absences	84,562	19,282	(23,565)	80,279	5,082
Component Unit Activities Long-term Debt	$ 31,105,116	$ 483,666	$ (3,854,199)	$ 27,734,583	$ 3,020,082
MCDC:					
Bonds payable:					
Sales tax revenue bonds	$ 21,380,000	$ -	$ (990,000)	$ 20,390,000	$ 1,010,000
Net pension liability	66,849	70,049	(26,378)	110,520	-
Total OPEB liability	32,134	4,748	(944)	35,938	-
Compensated absences	38,401	2,004	-	40,405	2,558
Component Unit Activities Long-term Debt	$ 21,517,384	$ 76,801	$ (1,017,322)	$ 20,576,863	$ 1,012,558
MCVB:					
Net pension liability	$ 122,007	$ 127,846	$ (48,143)	$ 201,710	$ -
Total OPEB liability	58,649	8,665	(1,723)	65,591	-
Compensated absences	62,938	2,721	(1,115)	64,544	4,086
Component Unit Activities Long-term Debt	$ 243,594	$ 139,232	$ (50,981)	$ 331,845	$ 4,086

Bonds Payable	**Issue Date**	**Interest Rate**	**Maturity Date**	**Amount Outstanding**
MEDC:				
Sales Tax Revenue Bonds 2011, Tax Exempt 2011	2/1/2011	2.5-4.38%	9/1/2025	$ 3,390,000
Sales Tax Revenue Bonds 2016, Taxable 2016	12/14/2016	2.49%	9/1/2025	4,895,000
Sales Tax Revenue Bonds 2018, Taxable 2018	8/1/2018	3.65%	9/1/2028	18,460,000
Total Bonds Payable				$ 26,745,000
MCDC:				
Sales Tax Revenue Bonds 2015, Taxable	2/25/2015	.75 - 4.12%	8/15/2035	$ 20,390,000

Compensated Absences

Compensated absences represent the estimated liability for employees' accrued holiday, portion of sick leave, compensatory time and vacation leave for which employees are entitled to be paid upon termination. The retirement of this liability is typically paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination.

General Obligation Bonds, Certificates of Obligation, and Tax Notes

The General Obligation Bonds include $254,210,000 of Bonds and Certificates of Obligation with interest rates ranging from 2% to 5.00% maturing annually in varying amounts through 2039. Interest for these obligations is payable semi-annually. They are backed by the full faith and credit of the City and are payable from property taxes. The Certificates are additionally secured, by a limited pledge of certain net revenues of the City as specified in their official statements.

In August 2019, the City issued $51,495,000 General Obligation Refunding and Improvement Bonds, Series 2019. The debt was issued to refund remaining amounts of two prior issuances including the General Obligation Bonds, Series 2009 of $5,490,000 and the Tax and Limited Pledge Waterworks and Sewer System Revenue Certificates of Obligation, Series 2009 of $11,485,000 and street construction and improvements. The bonds were issued with a premium of $7,684,725 with interest rates ranging from 2.5% to 5.0% and matures through 2039. This refunding resulted in a net present value savings of $3,170,924.

In February 2019, the City issued $7,560,000 of Tax & Limited Waterworks and Sewer System Certificates of Obligation, Series 2019. The debt was issued for parks and recreational facilities with an interest rate of 3.90% and matures through 2028.

Debt service requirements of the general obligation bonds and certificates of obligation bonds for the years subsequent to September 30, 2019, are as follows:

	General Obligation Bonds			Certificates of Obligation			Total
Fiscal Year	Principal Requirements	Interest Requirements	Total Requirements	Principal Requirements	Interest Requirements	Total Requirements	GO and CO Requirements
2020	$ 24,050,000	$ 9,816,400	$ 33,866,400	$ 1,870,000	$ 1,393,460	$ 3,263,460	$ 37,129,860
2021	19,005,000	8,814,105	27,819,105	2,060,000	1,333,921	3,393,921	31,213,026
2022	18,595,000	7,882,818	26,477,818	2,245,000	1,263,963	3,508,963	29,986,781
2023	19,075,000	6,975,838	26,050,838	2,440,000	1,185,218	3,625,218	29,676,056
2024	18,595,000	6,068,313	24,663,313	2,535,000	1,097,154	3,632,154	28,295,467
2025-2029	57,720,000	19,905,135	77,625,135	13,350,000	4,019,871	17,369,871	94,995,006
2030-2034	41,210,000	8,352,369	49,562,369	9,025,000	1,370,127	10,395,127	59,957,496
2035-2039	20,915,000	1,518,523	22,433,523	1,520,000	68,780	1,588,780	24,022,303
	$ 219,165,000	$ 69,333,501	$ 288,498,501	$ 35,045,000	$ 11,732,494	$ 46,777,494	$ 335,275,995

Proceeds of General Obligation Bonds are recorded in the Capital Projects Fund and are restricted to the use for which they were approved in the bond elections. The City Charter expressly prohibits the use of bond proceeds to fund operating expenditures. The City Charter does not prescribe a debt limit.

Revenue Bonds

The revenue bonds are serial obligations with interest rates ranging from 2.00% to 5.00%, maturing annually in varying amounts through years 2039 and interest is payable semi-annually. Revenue bonds are used to finance the acquisition and construction of major capital improvements for the water and sewer system and related facilities. These revenue bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system.

The revenue bonds are collateralized by the revenue of the Water and Wastewater Fund and the Debt Service Reserve Fund established by the bond ordinances. The ordinances provide that the gross revenues are to be used first to pay operating and maintenance expenses of the system, and second to maintain revenue bond funds in accordance with bond covenants. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. Annual principal and interest requirements on revenue bonds was less than 40 percent of net revenues. The City is in compliance with the revenue bond debt covenants as of September 30, 2019.

In August 2019 the City issued $31,735,000 Waterworks and Sewer System Revenue Bonds, Series 2019. The debt was issued for the purpose of improving and extending the City's waterworks and sewer system. The bonds were issued with a premium of $4,687,793 with interest rates ranging from 2% to 5% and matures through 2039.

Debt service requirements of the water and wastewater revenue bonds for the years subsequent to September 30, 2019, are as follows:

	Revenue Bonds		
Fiscal Year	**Principal**	**Interest**	**Total**
2020	$ 8,025,000	$ 5,589,824	$ 13,614,824
2021	8,270,000	5,216,256	13,486,256
2022	8,530,000	4,838,513	13,368,513
2023	8,770,000	4,475,956	13,245,956
2024	8,995,000	4,125,525	13,120,525
2025-2029	36,790,000	15,113,291	51,903,291
2030-2034	29,720,000	7,889,269	37,609,269
2035-2039	23,920,000	1,722,716	25,642,716
	$ 133,020,000	$ 48,971,350	$ 181,991,350

Sales Tax Revenue Bonds

The sales tax revenue bonds are serial obligations with interest rates ranging from 1.55% to 4.38%, maturing annually in varying amounts through years 2035 and interest is payable semi-annually. These bonds are special obligations of the corporations payable from and secured by a lien on and pledge of the proceeds of the ¼ of the ½ cent sales and use tax levied within the City for the benefit of the respective component unit corporation.

Conduit Debt

The McKinney Housing Finance Corporation (MHFC) issued conduit debt for purposes of low income housing development in the City of McKinney. MHFC has no obligation for such debt bey9ond the resources provided by a lease or loan with the third party. As of September 30, 2019, the aggregate outstanding conduit debt is $10,224,406.

The sales tax revenue bonds are used to defray the cost of any "project" defined as such by the *Development Corporation Act of 1979*, as amended. MEDC bonds were issued for approved projects of runway improvements at the City's airport and land acquisition. MCDC bonds were issued to construct and equip a community aquatics and fitness center to be donated to the City. These bonds are collateralized by the gross sales tax revenues of the corporations and the various special funds established by the bond ordinances. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met.

Annual principal and interest requirements on sales tax revenue bonds for the Corporations were less than 15% of gross sales tax revenues. The Corporations are in compliance with the bond covenants as of September 30, 2019.

Debt service requirements for the discretely presented component units of the sales tax revenue bonds for the years subsequent to September 30, 2019, are as follows:

	Sales Tax Revenue Bonds		
MEDC Fiscal Year	**Principal**	**Interest**	**Total**
2020	$ 3,015,000	$ 935,888	$ 3,950,888
2021	3,130,000	832,733	3,962,733
2022	3,250,000	725,582	3,975,582
2023	3,375,000	614,312	3,989,312
2024	3,510,000	498,021	4,008,021
2025-2028	10,465,000	880,317	11,345,317
	$ 26,745,000	$ 4,486,853	$ 31,231,853

MCDC Fiscal Year	**Principal Requirements**	**Interest Requirements**	**Total**
2020	$ 1,010,000	$ 711,230	$ 1,721,230
2021	1,030,000	688,848	1,718,848
2022	1,055,000	663,284	1,718,284
2023	1,085,000	636,044	1,721,044
2024	1,115,000	605,436	1,720,436
2025-2029	6,110,000	2,478,869	8,588,869
2030-2034	7,335,000	1,266,015	8,601,015
2035	1,650,000	68,030	1,718,030
	$ 20,390,000	$ 7,117,756	$ 27,507,756

Capital Leases

The City has entered into two capital leases to acquire fire trucks classified as general government machinery and equipment in the gross amount of $2,451,255 with a net book value of $1,531,624. In February 2019 a 5-year capital lease of $4,600,000 commenced along with a $3,000,000 down payment to acquire a downtown parking garage and related land. These assets are classified as general government buildings and land in the gross amount of $7,600,000 with a net book value of $6,468,448 for buildings and $1,021,917 for land. In November 2019, the City exercised its option for early purchase of the parking garage and land, thus, the entire debt service amount of $4,049,089 is recorded as a current liability in the government wide financial statements.

Debt service requirements of the City's capital leases for the years subsequent to September 30, 2019, are as follows:

Fiscal Year	Principal Requirements	Interest Requirements	Total
2020	$ 4,357,042	$ 13,726	$ 4,370,768
2021	195,417	5,379	200,796
	$ 4,552,459	$ 19,105	$ 4,571,564

H. Restricted Assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

	Cash and Investments	Accrued Interest Receivable	Total
Water and Wastewater Funds			
Operating Fund	$ 3,928,711	$ -	$ 3,928,711
Utility Capital Projects Fund	98,741,146	43,334	98,784,480
Utility Development Impact Fee	5,913,858	-	5,913,858
Revenue Debt Service Fund	8,476,386	-	8,476,386
Revenue Bond Reserve Fund	7,732,575	31,873	7,764,448
Airport Funds			
Operating Fund	130,858	-	130,858
Airport Construction Fund	4,217,155	-	4,217,155
Golf Course Fund	10,000	-	10,000
Solid Waste Fund	-	10,049	10,049
	$ 129,150,689	$ 85,256	$ 129,235,945

The ordinance authorizing the water and wastewater system revenue bonds requires that the City establish a fund, Revenue Bond Reserve Fund, to reserve an amount not less than the average annual requirement for the payment of principal and interest on all the revenue bonds. At September 30, 2019, net position is sufficient to satisfy such bond ordinance requirements.

The ordinance further requires that the proceeds from the sale of revenue bonds be expended for certain capital improvements to the water and wastewater system. The proceeds are maintained as Restricted Assets – Utility Capital Projects Fund until such time as needed to fund the water and wastewater system construction program.

(4) DEFERRED COMPENSATION PLAN

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. One plan is administered by the International City Management Association Retirement Corporation (ICMARC) and the other is administered by Nationwide. All assets and income are held in trust for the exclusive benefit of participants and their beneficiaries, therefore it is not reported in the financial statements of the City. Assets and liabilities are not included in the City's basic financial statements.

The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

(5) PENSION PLAN

A. Plan Description

The City and three of its component units participate as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit agent multiple-employer pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS, an agency created by the State of Texas and administered in accordance with the *TMRS Act*, Subtitle G, Title 8, Texas Government Code (TMRS Act) is 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 actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

Employee Deposit Rate:	7.0%
Matching Ratio (City to employee):	2 to 1
Years required for vesting	5 years
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated service credit	100% Repeating, Transfers
Annuity increase to retirees	70% of CPI Repeating

Employees Covered by Benefit Terms:

At the December 31, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	313
Inactive employees entitled to but not yet receiving benefits	445
Active employees	1,116
Total	1,874

B. Contributions

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. Employer contributions are actuarially determined; for the fiscal year ended September 30, 2019, the City and its component units made contributions of $12,527,597 or 15.15% of covered payroll.

C. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

D. Actuarial Assumptions

The total pension liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with 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 Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2018, valuation was based on the results of actuarial experience studies. This experience study was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75% for the 2015 actuarial valuation. 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.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.30%
International equity	17.5%	6.10%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	3.39%
Real return	10.0%	3.78%
Real estate	10.0%	4.44%
Absolute return	10.0%	3.56%
Private equity	5.0%	7.75%
Total	100%	

E. 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 contributions will remain at the current 7% rate and employer contributions will be made at the rates specified by 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 plan 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.

F. Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balances as of October 1, 2018	$ 274,679,818	$ 240,346,490	$ 34,333,328
Changes for the year:			
Service cost	14,350,469	-	14,350,469
Interest on total pension liability	18,774,911	-	18,774,911
Effect of difference in expected and actual experience	(714,145)	-	(714,145)
Benefit payments	(7,416,454)	(7,416,454)	-
Administrative expenses	-	(139,143)	139,143
Member contributions	-	5,426,974	(5,426,974)
Net investment loss	-	(7,206,568)	7,206,568
Employer contributions	-	11,908,337	(11,908,337)
Other	-	(7,270)	7,270
Balances as of September 30, 2019	$ 299,674,599	$ 242,912,366	$ 56,762,233
City	$ 294,403,362	$ 238,639,537	$ 55,763,825
Component Units	$ 5,271,237	$ 4,272,829	$ 998,408

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

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 103,503,333	$ 55,763,825	$ 17,103,720
Component unit's net pension liability			
MEDC	1,273,655	686,178	210,469
MCDC	205,129	110,520	33,897
MCVB	374,437	201,710	61,875

H. 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.

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

For the year ended September 30, 2019, the City and its component units recognized pension expense of $16,247,158 and $273,153, respectively.

At September 30, 2019, the City and its component units reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		MEDC	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,434,031	$ (1,146,809)	$ 29,952	$ (14,112)
Changes of assumptions	-	(1,714)	-	-
Differences between projected and actual investment earnings	12,229,569	-	150,481	-
Contributions subsequent to the measurement date through year-end	8,951,253	-	110,149	-
Total	$ 23,614,853	$ (1,148,523)	$ 290,582	$ (14,112)

	MCDC		MCVB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,824	$ (2,273)	$ 8,805	$ (4,148)
Changes of assumptions	-	-	-	-
Differences between projected and actual investment earnings	24,240	-	44,233	-
Contributions subsequent to the measurement date through year-end	17,740	-	32,382	-
Total	$ 46,804	$ (2,273)	$ 85,420	$ (4,148)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of $8,951,253 and $160,271 will be recognized as a reduction of the net pension liability of the City and its component units, respectively, for the year ending September 30, 2020.

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

Year Ended September 30	Primary Government	MEDC	MCDC	MCVB
2019	$ 4,414,368	$ 54,321	$ 8,749	$ 15,970
2020	2,053,858	25,274	4,070	7,430
2021	2,228,434	27,422	4,416	8,062
2022	4,843,753	59,614	9,606	17,507
2023	28,635	352	57	104
Thereafter	(53,971)	(662)	(107)	(183)
Total	$ 13,515,077	$ 166,321	$ 26,791	$ 48,890

(6) POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Retiree Health Care Plan

A. Plan Description

The City provides postemployment medical and dental benefits (OPEB) for eligible retirees, their spouses and dependents through a single-employer defined benefit plan, which covers both active and retired members.

All medical care benefits are provided through the City's self-insured health plan. The two optional benefit levels, CityCare PPO and CityCare Plus PPO, are the same for retirees as those afforded to active employees.

B. Benefits Provided

To be eligible for coverage a retiree must qualify under all three of the following:

1. Has been covered as an employee for medical benefits under the City of McKinney Employee Healthcare Plan immediately prior to retirement; and
2. Applies for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than the effective date of retirement; and
3. Enrolls for Retiree health coverage no later than the effective date of retirement.

Retirees who elect COBRA cannot later elect retiree coverage. Retirees are not allowed to add additional dependents upon retirement. Retirees or dependents who are Medicare eligible may not remain on the Plan; however, retirees may elect to purchase a Medicare supplement offered by the City.

As of December 31, 2018, the following employees were covered by the benefit terms:

Retirees and beneficiaries	24
Inactive, nonretired members	-
Active employees	1,064
	1,088

C. Accounting Policy

An irrevocable trust has not been established that meets the criteria in paragraph 4 of GASB Statement No. 75. Therefore, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

D. Funding Policies

The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual retiree contributions are equal to the benefits that are paid on behalf of the retirees. OPEB expense as actuarially determined for the City and its component units was $1,530,131 and $27,396, respectively.

The monthly Retiree health coverage contribution rates for offered benefit levels are as follows:

CITYCARE PPO			CITYCARE PLUS PPO		
Single Coverage	$	552	Single Coverage	$	1,344
Singe + Spouse	$	3,552	Singe + Spouse	$	5,028
Single + Children	$	3,060	Single + Children	$	4,536
Single + Family	$	4,896	Single + Family	$	6,984

E. Actuarial Methods and Assumptions

Significant methods and assumptions used in the December 31, 2018, actuarial valuation are as follows:

Actuarial Cost Method	Individual Entry-Age
Discount Rate	3.71% as of December 31, 2018 (3.31% in prior year) Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in the Fidelity “20-Year Municipal GO AA Index” as of December 31, 2018.
Inflation	2.50% per annum
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumption	Based on the experience study covering the four-year period ending December 31, 2014, as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	For healthy retirees, 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%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates	7.50% decreasing to an ultimate rate of 4.25% over 15 years.
Participation Rates	It was assumed that retirees would choose to receive retiree health care benefits through the City as follows:

Age at Retirement	Participation Assumption
< 50	0%
50 – 55	15%
55 +	50%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

F. Total OPEB Liability

The total OPEB liability of $18,132,869 (City) and $324,655 (Component Units) was measured as of December 31, 2018, and was determined by an actuarial valuation as of December 31, 2018.

The total OPEB liability and related information are as follows for the City and its component units at September 30, 2019:

	Total OPEB Liability
Balance as of October 1, 2018	$ 16,504,027
Changes for the year:	
Service cost	1,249,905
Interest on total OPEB liability	561,769
Effect of difference in expected and actual experience	300,000
Change of assumptions (discount rate change)	156,041
Benefit payments	(314,218)
Balance as of September 30, 2019	$ 18,457,524
City	$ 18,132,869
Component Units	$ 324,655

Although not considered contributions under GASB 75, the City has assigned $5,511,473 of fund balance in the General Fund for funding of the total OPEB liability.

G. OPEB Expense and Deferred Outflows of Resources Related to OPEBs:

At September 30, 2019, the City and its component units reported deferred outflows of resources related to OPEBs from the following sources:

	Primary Government	MEDC	MCDC	MCVB
	Deferred Outflows of Resources	Deferred Outflows of Resources	Deferred Outflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 269,318	$ 3,314	$ 534	$ 974
Changes of assumptions	776,589	9,556	1,539	2,809
Benefit payments subsequent to the measurement date through year-end	181,169	2,229	359	655
Total	$ 1,227,076	$ 15,099	$ 2,432	$ 4,438

Deferred outflows of resources related to OPEBs resulting from benefit payments subsequent to the measurement date of $181,169 and $3,243 will be recognized as a reduction of the total OPEB liability of the City and its component units, respectively, for the year ending September 30, 2020.

Other amounts reported as deferred outflows related to OPEBs will be recognized in OPEB expense as follows:

Year Ended September 30	Primary Government	MEDC	MCDC	MCVB
2019	$ 115,918	$ 1,426	$ 230	$ 419
2020	115,918	1,426	230	419
2021	115,918	1,426	230	419
2022	115,918	1,426	230	419
2023	115,918	1,426	230	419
Thereafter	466,317	5,740	923	1,688
Total	$ 1,045,907	$ 12,870	$ 2,073	$ 3,783

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

The following presents the total OPEB liability of the City and its component units, calculated using the discount rate of 3.71%, as well as what the City and its component unit's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current discount rate:

	1% Decrease in Discount Rate (2.71%)	Current Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
City's total OPEB liability	$ 20,090,371	$ 18,132,856	$ 16,371,471
Component unit's total OPEB liability			
MEDC	247,221	223,126	201,458
MCDC	39,816	35,938	32,446
MCVB	72,680	65,591	59,226

I. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City and its component units, as well as what the City and its component unit's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
City's total OPEB liability	$ 15,839,737	$ 18,132,856	$ 20,870,219
Component unit's total OPEB liability			
MEDC	194,915	223,126	256,817
MCDC	31,392	35,938	41,362
MCVB	57,302	65,591	75,501

(7) SUPPLEMENTAL DEATH BENEFIT FUND

A. Plan Description

The City contributes to a single-employer defined benefit OPEB plan, the group-term life insurance plan known as the SDBF. This is a voluntary program administered by the Texas Municipal Retirement System (TMRS) in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. 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.

B. Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (OPEB) and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member 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.

As of December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	213
Inactive employees entitled to but not yet receiving benefits	120
Active employees	1,116
	1,449

C. Accounting Policies

An irrevocable trust has not been established that meets the criteria in paragraph 4 of GASB Statement No. 75. Therefore, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

D. Actuarial Methods and Assumptions

Significant methods and assumptions used in the December 31, 2018, actuarial valuation are as follows:

Actuarial Cost Method	Entry Age Normal
Discount Rate	3.71% as of December 31, 2018 (3.31% in prior year) Source: Fidelity Index's "20-Year Municipal GO AA Index"
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
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.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

E. Total OPEB Liability

The City's total OPEB liability of $1,695,134 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

The total OPEB liability and related information are as follows for the City at September 30, 2019:

	Total OPEB Liability
Balance as of October 1, 2017	$ 1,695,134
Changes for the year:	
Service cost	139,551
Interest on total OPEB liability	58,290
Effect of difference in expected and actual experience	304,379
Change of assumptions (discount rate change)	(147,679)
Benefit payments	(7,751)
Balance as of September 30, 2018	$ 2,041,924

F. OPEB Expense and Deferred Outflows of Resources Related to OPEBs:

For the year ended September 30, 2019, the City recognized OPEB expense of $235,811.

At September 30, 2019, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 267,707	$ -
Changes of assumptions	120,272	(129,886)
Benefit payments subsequent to the measurement date through year-end	78,600	-
Total	$ 466,579	$ (129,886)

Benefit payments subsequent to the measurement date and before fiscal year-end of $78,600 will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2020.

Other amounts reported as deferred outflows related to OPEBs will be recognized in OPEB expense as follows:

Year Ended September 30	
2020	$ 37,970
2021	37,970
2022	37,970
2023	37,970
2024	37,970
Thereafter	68,243
Total	$ 258,093

G. 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 3.71%, 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 (2.71%) or 1-percentage-point higher (4.71%) than the current discount rate:

	1% Decrease in Discount Rate (2.71%)	Current Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
City's total OPEB liability	$ 2,445,254	$ 2,041,924	$ 1,736,591

(7) DISCLOSURES ABOUT FAIR VALUE OF ASSETS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

A. Investment in State Investment Pools

During the year, the City invested in multiple public fund investment pools, including TexPool, LOGIC, TexasDAILY and Texas CLASS. Investments in the pools are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the City has not been issued certificates, but rather it owns an individual beneficial interest in the net position of the related investment pools. The fair value of the position of the pools for LOGIC, TexasDAILY and Texas CLASS are measured at net asset value and is designed to approximate the share value. The fair value of the position of in TexPool is measured at amortized cost as the pool meets requirements of GASB No. 79. Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds and does not have any limitations or restrictions on withdrawals.

B. Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019:

PRIMARY GOVERNMENT	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Federal agency securities	$ 61,476,658	$ -	$ 61,476,658	$ -
Municipal bonds	694,215	-	694,215	-
Total Investments by Fair Value Level	62,170,873	$ -	$ 62,170,873	$ -
Investments Measured at Net Asset Value				
LOGIC	96,620,133			
TexasDAILY	95,000,778			
Texas CLASS	98,316,243			
	289,937,154			
Investment Measured at Amortized Cost				
TexPool/TexPOOL Prime	127,412,400			
Non-negotiable Certificates of Deposit	5,280,687			
Total Investments	$ 484,801,114			
MEDC				
Investments by Fair Value Level				
Federal agency securities	$ 4,003,960	$ -	$ 4,003,960	$ -
Investments Measured at Net Asset Value				
LOGIC	1,619,221			
TexasDAILY	202,700			
Texas CLASS	5,161,856			
	6,983,777			
Investment Measured at Amortized Cost				
TexPool/TexPOOL Prime	3,534,531			
Total Investments	$ 14,522,268			
MCDC				
Investments by Fair Value Level				
Federal agency securities	$ 3,130,157	$ -	$ 3,130,157	$ -
Investments Measured at Net Asset Value				
LOGIC	13,320,390			
TexasDAILY	9,799,718			
Texas CLASS	12,354,555			
	35,474,663			
Investment Measured at Amortized Cost				
TexPool/TexPOOL Prime	18,679,578			
Total Investments	$ 57,284,398			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At September 30, 2019, no investments held by the City met the Level 3 hierarchy classification.

(8) WATER PURCHASE, WASTEWATER AND SOLID WASTE DISPOSAL CONTRACTS

The City has a contract with the North Texas Municipal Water District (NTMWD) to purchase substantially all of its water. Under the contract, the City pays NTMWD a rate based on water usage. The rates charged are subject to minimum annual contract payments. Contract payments for water for the year ended September 30, 2019, were $34,430,205.

The City has a contract with NTMWD whereby NTMWD agreed to provide a wastewater treatment and disposal system for the benefit of the City and any "additional member city," as defined. Each member city pays an "annual payment," as defined, as its share of operating expenses and debt service of NTMWD. The City's annual payment for the year ended September 30, 2019, was $19,819,559.

The City has a contract with NTMWD whereby NTMWD agreed to dispose of solid waste for the City and any "additional member city," as defined. Each member city pays an "annual payment," as defined, as its share of operating expenses and debt service of NTMWD. The City's annual payment for the year ended September 30, 2019, was $5,386,993.

(9) LITIGATION

The City is party to several legal actions arising in the ordinary course of business. In the opinion of the City's management, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the City's operations or financial position.

(10) CONTINGENT LIABILITIES

The City participates in a number of Federal and State funded grant programs. These programs are subject to program compliance audits and adjustments by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

NTMWD has issued revenue bonds for systems that service participating cities. Member cities including McKinney have guaranteed to pay their share of debt service, and certain related administrative costs. NTMWD allocates these costs annually based on each city's pro-rata usage of the respective systems.

Outstanding principal balances as of September 30, 2019, are as follows:

	NTMWD Debt Service *	McKinney's Allocated Share
Water System	$ 2,567,405,000	$ 313,998,061
Wastewater System	625,445,000	128,394,793
Solid Waste System	52,190,000	11,603,458
Total	$ 3,245,040,000	$ 453,996,312

* Only represents NTMWD debt service related to systems servicing McKinney. It may not reflect NTMWD's total debt service.

(11) INSURANCE AND RISK MANAGEMENT

The City's Insurance and Risk Management Internal Service Fund accounts for health care claims, workers' compensation claims, property, and general liability claims.

The City provides health care benefits to City employees under a partially self-insured plan (Plan). Under the Plan, the City and the employees pay a predetermined monthly premium, which is based on the projected claims cost for the Plan and the extent of medical coverage selected by the employee. The monthly premiums are deposited into the Insurance and Risk Fund and are used to pay claims as they are submitted. The City's liability is limited by an excess (stop loss) insurance policy covering individual claims in excess of $150,000. The City utilizes Cigna as a third party administrator to adjudicate and pay medical claims on behalf of the City. Throughout the policy year, the "stop loss" insurance carrier reimburses the City for claims paid during the policy year which exceeded the "stop loss" deductible amount.

For the year ended September 30, 2019, the City and the City's employees' contributions paid under the Plan were $16,108,134 and $2,799,748, respectively.

The City participates in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for workers' compensation claims, liability (general, automobile, law enforcement and errors/omissions), and property insurance. The Insurance and Risk Management internal service fund allocates costs to each department in order to pay deductibles and workers' compensation premium costs (TMLIRP contributions). This cost is based on the pool's claims cost, which is adjusted to reflect the City's individual claims experience.

The City has a workers' compensation deductible of $25,000 per accident, with an annual aggregate retention of $800,000. During 2019, the City contributed $938,687 for workers' compensation coverage.

The City maintains deductibles of $100,000 per occurrence for Error and Omissions, $50,000 per occurrence for Auto Liability, $50,000 per occurrence for Law Enforcement Liability and up to $25,000 per occurrence for all other liability coverages. All insured claims are paid by TMLIRP, with the City reimbursing TMLIRP for the deductible. The City also carries a liability policy for the Airport through STARR Companies with a $10,000 deductible. During 2019, the City contributed $1,514,153 for property, general liability and all other coverage.

The liabilities for insurance claims reported are based on GASB No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, amended by GASB No. 66, Technical Corrections, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an estimate for incurred but not reported claims and are included in accounts payable.

The changes in the Insurance and Risk Management liability amount in fiscal 2019 and 2018 were:

	Liability Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments and Changes in Estimates	Liability End of Year
2019				
Health Claims	$ 511,910	$ 18,025,474	$ (17,854,156)	$ 683,228
Workers' Comp	296,976	697,445	(516,507)	477,914
Total	$ 808,886	$ 18,722,919	$ (18,370,663)	$ 1,161,142
2018				
Health Claims	$ 703,885	$ 13,632,982	$ (13,824,957)	$ 511,910
Workers' Comp	375,690	331,557	(405,518)	301,729
Total	$ 1,079,575	$ 13,964,539	$ (14,230,475)	$ 813,639

There were no significant reductions in insurance coverage from the prior year. There have been no claim settlements in excess of insurance coverage in the last three years.

(12) TAX ABATEMENTS AND GRANTS

The City offers property and sales tax abatement/grant agreements with local businesses under Chapter 312 and Chapter 380 of the Texas Local Government Code. Under these Codes, the City may award tax abatements/grants of up to 100 percent of a business's property and sales taxes for the purpose of attracting or retaining businesses within their jurisdiction. The abatements/grants may be awarded to any business located within or promising to relocate to the City of McKinney.

For the fiscal year ended September 30, 2019, the City paid $2,114,041 in economic development grants under Chapter 380. This amount is reported in aggregate due to sales tax confidentiality requirements under Texas Tax Code. No tax abatements were made under Chapter 312.

Financial Advisory Services
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