

OFFICIAL STATEMENT

Dated December 11, 2018

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

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes and the Certificates are not "private activity bonds". See "TAX MATTERS - Tax Exemption" herein for a discussion of the opinion of Bond Counsel.

THE BONDS ARE NOT DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$13,115,000
TOWN OF ADDISON, TEXAS
(Dallas County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: December 1, 2018

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$13,115,000 Town of Addison, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2018 (the "Certificates") will accrue from the Delivery Date (expected to be January 10, 2019), will be payable February 15 and August 15 of each year, commencing August 15, 2019, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE OBLIGATIONS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the Town of Addison, Texas (the "Town"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the Town, and (ii) a pledge of the Surplus Revenues of the Town's Waterworks and Sewer System (the "System") in an amount not to exceed \$1,000 as provided in the ordinance that authorized the Certificates (the "Ordinance") (see "THE CERTIFICATES - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) designing, constructing, installing, acquiring and equipping additions, extensions and improvements to the Town's water and wastewater system, and the acquisition of land and interests in land for such projects, (ii) designing, acquiring, improving, constructing and renovating facilities and infrastructure at the Addison Municipal Airport related to constructing and equipping a new customs and airport administration facility, and (iii) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

MATURITY SCHEDULE*

CUSIP Prefix⁽¹⁾: 006644

Amount	15-Feb Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Amount	15-Feb Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 215,000	2020	4.000%	1.860%	J58	\$ 670,000	2030	4.000%	2.780% ⁽²⁾	K72
475,000	2021	3.000%	1.960%	J66	700,000	2031	4.000%	2.890% ⁽²⁾	K80
490,000	2022	4.000%	2.030%	J74	725,000	2032	4.000%	3.050% ⁽²⁾	K98
510,000	2023	3.000%	2.060%	J82	755,000	2033	4.000%	3.150% ⁽²⁾	L22
525,000	2024	3.000%	2.150%	J90	785,000	2034	3.250%	3.300%	L30
540,000	2025	3.000%	2.240%	K23	805,000	2035	3.250%	3.400%	L48
560,000	2026	4.000%	2.440%	K31	835,000	2036	3.375%	3.460%	L55
580,000	2027	4.000%	2.540%	K49	865,000	2037	3.375%	3.520%	L63
610,000	2028	5.000%	2.550%	K56	895,000	2038	3.500%	3.600%	L71
645,000	2029	5.000%	2.640% ⁽²⁾	K64	930,000	2039	3.625%	3.650%	L89

(1) 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 Town, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first call date, February 15, 2028.

REDEMPTION . . . The Town reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser of the Certificates and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Dallas, Texas, Bond Counsel (see APPENDIX C, "Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on January 10, 2019.

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

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

The information set forth herein has been obtained from the Town and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise, or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town or other matters described herein since the date hereof. See "Other Information - Continuing Disclosure of Information" for a description of the Town's undertaking to provide certain information on a continuing basis.

Neither the Town nor its Financial Advisor make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

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

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

This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, and achievements to be different from future results, performance, and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The Certificates are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Certificates in accordance with applicable securities law provisions of the jurisdiction in which the Certificates have been registered, qualified or exempted should not be regarded as a recommendation thereof.

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The cover pages hereof, this page, the appendices included herein and any addenda, supplement, or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE TOWN	The Town is a political subdivision and home-rule municipal corporation of the State, located in Dallas County, Texas. The Town covers approximately 4.4 square miles (see "INTRODUCTION - Description of the Town").
THE CERTIFICATES	The \$13,115,000 Combination Tax and Revenue Certificates of Obligation, Series 2018 are scheduled to mature on February 15 in the years 2020 through 2039 (see "THE CERTIFICATES - Description of the Certificates").
PAYMENT OF INTEREST	Interest on the Certificates accrues from the Delivery Date, and is payable August 15, 2019, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates" and "THE CERTIFICATES - Optional Redemption").
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Ordinance adopted by the City Council of the Town (see "THE CERTIFICATES - Authority for Issuance").
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the Town, payable from a combination of (i) the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the Town, and (ii) a pledge of the Surplus Revenues of the Town's Waterworks and Sewer System (the "System") in an amount not to exceed \$1,000 as provided in the Certificate Ordinance (see "THE CERTIFICATES - Security and Source of Payment").
REDEMPTION	The Town reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - Optional Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law, interest on the Certificates will be excludable from gross income for federal income tax purposes and the Certificates are not private activity bonds. See "TAX MATTERS - Tax Exemption" for a discussion of the opinion of Bond Counsel.
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for (i) designing, constructing, installing, acquiring and equipping additions, extensions and improvements to the Town's water and wastewater system, and the acquisition of land and interests in land for such projects, (ii) designing, acquiring, improving, constructing and renovating facilities and infrastructure at the Addison Municipal Airport related to constructing and equipping a new customs and airport administration facility, and (iii) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.
RATINGS	The Certificates and presently outstanding tax supported debt of the Town are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by S&P Global Ratings ("S&P"), a division of S&P Global Inc. ("S&P") ("S&P") (see "OTHER INFORMATION - Ratings").

BOOK-ENTRY-ONLY SYSTEM..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

PAYMENT RECORD The Town has never defaulted on the payment of its tax-supported indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Town Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Net Funded Tax Debt Outstanding ⁽³⁾	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections to Tax Levy
2015	15,530 ⁽¹⁾	\$ 3,805,580,841	\$ 245,047	\$ 80,133,849	\$ 5,160	2.11%	95.70%
2016	15,600 ⁽¹⁾	4,036,723,767	258,764	74,993,698	4,807	1.86%	96.00%
2017	15,730 ⁽¹⁾	4,300,271,555	273,380	72,717,479	4,623	1.69%	97.40%
2018	15,760 ⁽¹⁾	4,450,533,504	282,394	68,479,148	4,345	1.54%	96.68% ⁽⁵⁾
2019	15,760 ⁽²⁾	4,725,759,169	299,858	63,570,000 ⁽⁴⁾	4,034	1.35%	In Process ⁽⁶⁾

(1) Source: North Central Texas Council of Governments ("NCTCOG").

(2) Source: Estimated by Town officials.

(3) The above statement of indebtedness does not include general obligation debt for which repayment is provided from revenues of the waterworks and sewer system, the airport fund and drainage fund ("self-supporting debt"). See "Table 1 – Valuation, Exemptions and General Obligation Debt" and Table 10 – Computation of Self-Supporting Debt" herein.

(4) Projected, excludes the Certificates and Self-Supporting Debt.

(5) Collections as of October 1, 2018.

(6) Taxes billed in October 2018 will be delinquent on February 1, 2019.

For additional information regarding the Town, please contact:

Wesley Pierson	Nick Bulaich
Olivia Riley	Adam LanCarte
Town of Addison	or Hilltop Securities Inc.
P.O. Box 9010	777 Main Street, Suite 1200
Addison, Texas 75001	Fort Worth, Texas 76102
(972) 450-7001	(817) 332-9710

TOWN OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Joe Chow Mayor	16 Years	May, 2019	Business Owner/Insurance Agent
Paul Walden Mayor Pro Tem	2 Years	May, 2020	Business Developer Specialist
Tom Braun Deputy Mayor Pro Tem	14 Years	May, 2019	Business Owner
Ivan Hughes Councilmember	3 Years 6 Months	May, 2019	Retired
Guillermo Quintanilla Councilmember	6 Months	May, 2020	Small Business Owner
Lori Ward Councilmember	1 Year 6 Months	May, 2019	Commercial Business Development & Management
Marlin Willesen Councilmember	6 Months	May, 2020	Retired

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Wesley Pierson	City Manager	3 Years
Olivia Riley	Chief Financial Officer	2 Years 6 Months

CONSULTANTS AND ADVISORS

Auditors	BKD, LLP Dallas, Texas
Bond Counsel	Bracewell LLP Dallas, Texas
Financial Advisor	Hilltop Securities Inc. Fort Worth, Texas

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OFFICIAL STATEMENT
RELATING TO
TOWN OF ADDISON, TEXAS
\$13,115,000
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$13,115,000 Town of Addison, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2018 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Certificates which authorized the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

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

There follows in this Official Statement descriptions of the Certificates and certain information regarding the Town and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Town's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

DESCRIPTION OF THE TOWN . . . The Town is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the Town's Home Rule Charter. The Town's Home Rule Charter originally adopted in 1978, was last amended in 2010. The Town operates under the Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office for Councilmembers is two years with the terms of the Mayor and three of the Councilmembers expiring in odd-numbered years and the terms of the other three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the Town. Some of the services that the Town provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the Town was 13,056, and the estimated 2019 population is 15,760. The Town covers approximately 4.4 square miles and is located within the Dallas, Texas, Standard Metropolitan Statistical Area (SMSA).

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) designing, constructing, installing, acquiring and equipping additions, extensions and improvements to the Town's water and wastewater system, and the acquisition of land and interests in land for such projects, (ii) designing, acquiring, improving, constructing and renovating facilities and infrastructure at the Addison Municipal Airport related to constructing and equipping a new customs and airport administration facility, and (iii) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates shall be dated December 1, 2018, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest on the Certificates will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing August 15, 2019 until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at their stated maturity or upon earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Certificates, all payments will be made as described under "THE CERTIFICATES - Book-Entry-Only System" herein. If the date for any payment on the Certificates shall be a Saturday, a Sunday, a legal holiday or a day when banking institutions in the Town where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

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

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the Town and are payable from and secured by a combination of (i) the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the Town, and (ii) a pledge of the Surplus Revenues of the Town's Waterworks and Sewer System (the "System") in an amount not to exceed \$1,000 as provided in the Ordinance.

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

OPTIONAL REDEMPTION . . . The Town reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the Town may select the maturities of Certificates to be redeemed. If less than all of the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . . In the event any of the Certificates are structured as term Certificates, such term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of Ordinance, which provisions will be included in the final Official Statement.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, the Town shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

In the Ordinance, the Town reserves the right in the case of a redemption to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) the Town retains the right to rescind such notice at any time prior to the scheduled redemption date if the Town delivers a certificate of the Town to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners. Any Certificates subject to 8 conditional redemption where redemption has been rescinded shall remain

outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the Town to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

The Paying Agent/Registrar and the Town, so long as a book-entry-only system is used for the Certificates will send any notice of redemption 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, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice.

Redemption of portions of the Certificates by the Town will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Town or the Paying Agent/Registrar. Neither the Town nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. See "THE CERTIFICATES - Book-Entry-Only System" herein.

AMENDMENTS . . . The Town, may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Town may, with the written consent of holders of a majority in aggregate principal amount of the Certificates, as the case may be, then outstanding, amend, add to, or rescind any of the provisions of the Ordinances; provided that, without the consent of the registered owners of all of the Certificates, as the case may be, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, 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 payment of the principal of, premium, if any, or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, as the case may be, or (3) reduce the aggregate principal amount of the Certificates, as the case may be, required to be held by the owners of the Certificates, as the case may be, for consent to any such amendment, addition, or rescission.

DEFEASANCE . . . The Ordinance provides that the Town may discharge its obligations to the registered owners of any or all of the Certificates to pay principal and interest thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Paying Agent/Registrar or any other lawfully authorized entity a sum of money equal to the principal of and all interest to accrue on such Certificates to maturity or prior redemption or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Certificates; provided, that under current law, such deposits may be invested and reinvested only in (a) direct non-callable 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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Town adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Town adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Certificates. If any of Certificates are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Certificates of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Ordinance.

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered 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 Obligation certificate will be issued for each maturity and series of the Certificates, each 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 instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificates 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 register 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 any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Town as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 Town or the Paying Agent/Registrar of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by

standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar of each series, or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of the Certificates is discontinued, printed securities will be issued to the DTC Participants or the holder, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE CERTIFICATES - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the Town retains the right to replace the Paying Agent/Registrar. The Town covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates, as the case may be, are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, financial institution or trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the Town agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed certificates will be issued to the registered owners thereof and thereafter may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Certificates surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the Town nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

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

past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REMEDIES . . . The Ordinance establishes as “events of default” (i) the failure to make payment of principal of or interest on any of the Certificates when due and payable; or (ii) default in the performance of observance of any other covenant, agreement or obligation of the Town, which default materially and adversely affects the rights of the related Owners, including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of sixty days after notice of such default is given by any Owner to the Town. Under State law, there is no right to the acceleration of maturity of the Certificates upon the failure of the Town to observe any covenant under the Ordinance. If an Owner of a Certificate does not receive payment of principal of or interest on the Certificates when due, the Owner may seek a writ of mandamus from a court of competent jurisdiction. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance under the Certificates or the Ordinance and the Town's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

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

The Texas Supreme Court ruled in *Tooke v. Town of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the Town's governmental immunity from a suit for money damages, Owners may not be able to bring such a suit against the Town for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the Town could be obtained, it could not be enforced by direct levy and execution against the Town's property. Further, the registered owners cannot themselves foreclose on property within the Town or sell property within the Town to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. Town of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a Town with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a Town. Texas jurisprudence has generally held that proprietary functions are those conducted by a Town in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. Chapter 1371, Texas Government Code (“Chapter 1371”), which pertains to the issuance of public securities by issuers such as the Town, permits the Town to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Certificates, the Town is not using the authority provided by Chapter 1371 and has not waived sovereign immunity in the proceedings authorizing the Certificates.

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

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the Town is the responsibility of the Dallas Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value the preceding year plus (b) the property's appraised value in the preceding year plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The Town may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the Town by petition filed with the appropriate Appraisal Review Board.

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

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

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

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Senate Joint Resolution 1 ("SJRI"), passed during the 84th Texas Legislature, authorized a constitutional amendment to allow the Legislature to prohibit a municipality that adopts an optional homestead exemption from reducing or repealing the amount of the exemption. SJRI was approved by the voters in the November 2015 Constitutional election, and Senate Bill 1, also passed during the 84th Texas Legislature, prohibits municipalities from reducing or repealing the amount of their optional homestead exemption that was in place for the 2014 tax year for a period running through December 31, 2019.

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

Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse.

If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established such freeze cannot be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization. The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. House Joint Resolution 75 ("HJR75"), passed during the 84th Texas legislature, proposed a constitutional amendment that allows the Legislature to provide for an exemption from ad valorem taxation of all or part of the market value of the residence homestead of the surviving spouse of a 100 percent or totally disabled veteran and who would have had qualified for the full exemption before the law authorizing a residence homestead exemption took effect. The proposition authorized by HJR75 was approved by voters in the November 2015 constitutional election. As such, the surviving spouse of a totally disabled veteran who died on or before January 1, 2010 and who would have qualified for the full exemption on the homestead's entire value if it had been available at that time, will be entitled to an exemption from ad valorem taxation of all or part of the market value of the residence homestead if the spouse has not remarried.

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

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

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school district, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is stored under a contract bailment by a public warehouse operator at one or more public warehouse facilities that are not in any way owned or controlled by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

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

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

The Town also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs or promote state or local economic development and to stimulate business and commercial activity in the Town. In accordance with a program established pursuant to Chapter 380, the Town may make loans or grants of public funds for economic development purposes, however, no bonds secured by ad valorem taxes may be issued for such purposes unless approved by voters of the Town. Any agreement into which the Town has entered pursuant to Chapter 380 is hereinafter referred to as a "Chapter 380 Agreement".

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council of the Town is required to adopt the annual tax rate for the Town before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the Town, and a failure to adopt a tax rate by such required date will result in the tax rate for the Town for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the Town for the preceding tax year. Furthermore, the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the Town's website if the Town owns, operates or controls an internet website and public notice be given by television if the Town has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the Town must annually calculate and publicize its "effective tax rate" and "rollback tax rate". If the adopted tax rate exceeds the rollback tax rate the qualified voters of the Town by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

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

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the Town is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of August 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on August 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

TOWN APPLICATION OF TAX CODE . . . The Town grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000. The disabled are also granted an exemption of \$60,000.

To those who apply, the Town grants an additional exemption of 20% of the market value of residence homesteads with a minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

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

The Town does not tax nonbusiness personal property or aircraft.

The Town contracts with the Dallas County Tax Assessor to collect its taxes.

The Town does not permit split payments, and discounts are not allowed.

The Town does tax freeport property.

The Town does tax goods-in-transit.

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

The Town has not adopted a tax abatement policy and does not have any tax abatement agreements in place.

The Town has not adopted the freeze for elderly and disabled homeowners.

The Town has not created any TIFs and does not participate in any TIFs created by other governmental entities.

The Town does have Chapter 380 Agreements in place and anticipates expending approximately \$455,334 under those agreements during Fiscal Year 2018.

TAX ABATEMENT POLICY . . . The Town does not have a tax abatement policy nor has it granted any tax abatements.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2018/19 Market Valuation Established by Dallas Central Appraisal District ⁽¹⁾		\$ 5,207,221,990
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 131,514,537	
Disabled Veterans Exemptions	1,140,777	
Agricultural Land Use Reductions	664,652	
Over 65	34,316,500	
Disabled Person	780,000	
Totally Exempt	294,500,970	
Parcels Under \$500	35,460	
Mineral Rights	200	
Capped Value Loss	18365134	
Pollution Control	<u>144,591</u>	<u>481,462,821</u>
2018/19 Taxable Assessed Valuation		<u>\$ 4,725,759,169</u>
Town Funded Debt Payable from Ad Valorem Taxes (as of 9-30-18)		
General Obligation Bonds	\$ 57,495,000	
Certificates of Obligation	27,345,000	
The Certificates	<u>13,115,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 97,955,000
Less Self-Supporting Debt: ⁽²⁾		
Airport Fund General Obligation Debt	9,930,000 ⁽³⁾	
Drainage Fund General Obligation Debt	5,950,000	
Water and Sewer System General Obligation Debt	<u>18,505,000 ⁽³⁾</u>	<u>34,385,000</u>
Net Funded Debt Payable from Ad Valorem Taxes		<u>\$ 63,570,000</u>
Interest and Sinking Fund as of 9-30-18		\$ 169,528
Ratio Total Funded Debt to Taxable Assessed Valuation		2.07%
Ratio Net Funded Debt to Taxable Assessed Valuation		1.35%

2019 Estimated Population - 15,760
Per Capita Taxable Assessed Valuation - \$299,858
Per Capita Total Funded Debt \$6,215
Per Capita Net Funded Debt - \$4,034

(1) As reported by the Town's 2018 Certified Tax Roll.

(2) General obligation debt in the amount shown for which repayment is provided from revenues of the waterworks and sewer system, airport fund, and drainage fund. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the Town's current policy to provide these payments from respective system revenues. This policy is subject to change in the future. To the extent such policy is changed and such self-supporting debt is not paid from the waterworks and sewer system revenues, airport fund, or drainage fund, such debt will be paid from ad valorem taxes.

(3) Includes a portion of the Certificates.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Taxable Appraised Value for Fiscal Year Ended September 30,						
Category	2019		2018		2017	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 815,671,540	15.66%	\$ 743,340,860	15.14%	\$ 722,123,190	15.33%
Real, Residential Multi-Family	896,180,670	17.21%	862,802,690	17.57%	792,335,790	16.82%
Real, Vacant Lots/Tracts	146,392,580	2.81%	125,095,920	2.55%	119,247,400	2.53%
Real, Farm and Ranch Improvements	664,900	0.01%	664,900	0.01%	664,900	0.01%
Real, Commercial and Industrial	2,614,632,350	50.21%	2,443,580,500	49.77%	2,335,898,600	49.57%
Minerals, Oil and Gas	200	0.00%	200	0.00%	200	0.00%
Real, Railroad	3,328,690	0.06%	3,146,340	0.06%	2,977,280	0.06%
Real and Tangible Personal, Utilities	26,277,830	0.50%	24,747,880	0.50%	24,004,370	0.51%
Tangible Personal, Aircraft	91,318,840	1.75%	99,631,040	2.03%	107,693,610	2.29%
Tangible Personal, Commercial	498,789,770	9.58%	502,016,000	10.22%	509,239,560	10.81%
Tangible Personal, Industrial	97,226,570	1.87%	81,528,310	1.66%	82,425,070	1.75%
Tangible Personal, Other	16,738,050	0.32%	23,511,310	0.48%	15,346,210	0.33%
Total Appraised Value Before Exemptions	\$ 5,207,221,990	100.00%	\$ 4,910,065,950	100.00%	\$ 4,711,956,180	100.00%
Less: Total Exemptions/Reductions	(481,462,821)		(459,532,446)		(411,684,625)	
Taxable Assessed Value	<u>\$ 4,725,759,169</u>		<u>\$ 4,450,533,504</u>		<u>\$ 4,300,271,555</u>	

Taxable Appraised Value for Fiscal Year Ended September 30,				
Category	2016		2015	
	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 667,942,120	14.96%	\$ 634,246,000	15.01%
Real, Residential Multi-Family	747,414,440	16.74%	695,486,060	16.46%
Real, Vacant Lots/Tracts	122,348,550	2.74%	121,316,420	2.87%
Real, Farm and Ranch Improvements	664,900	0.01%	664,900	0.02%
Real, Commercial and Industrial	2,200,500,130	49.28%	2,083,772,220	49.32%
Minerals, Oil and Gas	200	0.00%	200	0.00%
Real, Railroad	2,801,750	0.06%	2,573,660	0.06%
Real and Tangible Personal, Utilities	23,382,600	0.52%	22,820,220	0.54%
Tangible Personal, Aircraft	104,203,700	2.33%	103,784,950	2.46%
Tangible Personal, Commercial	507,884,130	11.37%	477,115,210	11.29%
Tangible Personal, Industrial	75,068,250	1.68%	71,184,340	1.68%
Tangible Personal, Other	12,912,740	0.29%	11,701,970	0.28%
Total Appraised Value Before Exemptions	\$ 4,465,123,510	100.00%	\$ 4,224,666,150	100.00%
Less: Total Exemptions/Reductions	(428,399,743)		(419,085,309)	
Taxable Assessed Value	<u>\$ 4,036,723,767</u>		<u>\$ 3,805,580,841</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Net Funded Tax Debt Outstanding ⁽³⁾	Ratio Funded Tax Debt to Taxable Assessed Valuation	Net Funded Debt Per Capita
2015	15,530 ⁽¹⁾	\$ 3,805,580,841	\$ 245,047	\$ 80,133,849	2.11%	\$ 5,160
2016	15,600 ⁽¹⁾	4,036,723,767	258,764	74,993,698	1.86%	4,807
2017	15,730 ⁽¹⁾	4,300,271,555	273,380	72,717,479	1.69%	4,623
2018	15,760 ⁽¹⁾	4,450,533,504	282,394	68,479,148	1.54%	4,345
2019	15,760 ⁽²⁾	4,725,759,169	299,858	63,570,000 ⁽⁴⁾	1.35%	4,034

(1) Source: North Central Texas Council of Governments ("NCTCOG")

(2) Source: Estimated by Town officials.

(3) The above statement of indebtedness does not include general obligation debt for which repayment is provided from revenues of the waterworks and sewer system, the airport fund and drainage fund ("self-supporting debt"). See "Table 1 – Valuation, Exemptions and General Obligation Debt" and "Table 10 – Computation of Self-Supporting Debt" herein.

(4) Projected.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution ⁽¹⁾		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2015	\$ 0.5618	\$ 0.3437	\$ 0.2181	\$ 21,430,622	96.30%	95.70%
2016	0.5791	0.3767	0.2024	23,445,994	96.30%	96.00%
2017	0.5605	0.3812	0.1793	24,175,503	97.00%	97.40%
2018	0.5500	0.3970	0.1530	24,531,963	97.15% ⁽²⁾	96.68% ⁽²⁾
2019	0.5500	0.4074	0.1426	25,084,119	In Process of Collection	⁽³⁾

(1) Tax rates rounded to fourth decimal.

(2) Collections as of October 1, 2018.

(3) Taxes billed in October 2018 become delinquent on February 1, 2019.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2018/19 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
FPG Colonnade LP	Office Buildings	\$ 218,063,000	4.61%
Post Addison Circle	Mixed Development	152,713,910	3.23%
5100 Belt Line Road Investors LLC	Retail	99,250,000	2.10%
COP Spectrum Center LLC	Land, Office Buildings	78,098,250	1.65%
Fiori LLC	Land, Apartments	78,000,000	1.65%
Gaedeke Holdings IX LLC	Office Buildings	78,000,000	1.65%
Mary Kay Inc	Office Buildings	71,935,000	1.52%
CPAddison II LLC	Hotel	70,500,000	1.49%
Savoye 2 LLC	Apartments	62,841,700	1.33%
Quorum Hospitality LLC	Hotel	60,750,000	1.29%
		<u>\$ 970,151,860</u>	<u>20.53%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the Town under current State law or the Town's Home Rule Charter (see "THE CERTIFICATES - Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY ⁽¹⁾

2019 Net Principal and Interest Requirements for Debt	\$ 6,751,454
\$0.1451 Tax Rate at 98.50% Collection Produces	\$ 6,754,220
Average Annual Net Principal and Interest Requirements for Debt, 2019 - 2037	\$ 4,452,875
\$0.0957 Tax Rate at 98.50% Collection Produces	\$ 4,454,713
Maximum Net Principal and Interest Requirements for Debt, 2019	\$ 6,751,454
\$0.1451 Tax Rate at 98.50% Collection Produces	\$ 6,754,220

(1) Less self-supporting debt and excluding the Certificates (See "Table 10 – Computation of Self-Supporting Debt").

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the Town are paid out of ad valorem taxes levied by such entities on properties within the Town. Such entities are independent of the Town and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Town, the Town has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the Town.

Taxing Jurisdiction	2018/19 Taxable Assessed Value	2018/19 Tax Rate	Total G.O. Debt	Estimated % Applicable	Overlapping G.O. Debt As of 10/1/2018	Authorized But Unissued Debt as of 10/1/2018
Town of Addison	\$ 4,725,759,169	\$ 0.55000	\$ 63,570,000 ⁽¹⁾	100.00%	\$ 63,570,000 ⁽¹⁾	\$ 26,000,000
Carrollton/Farmers Branch Independent School District	21,082,485,343	1.37000	178,785,000	1.36%	2,431,476	-
Dallas County	243,677,733,215	0.24310	172,265,000	1.74%	2,997,411	-
Dallas County Community College District	250,711,265,787	0.12400	228,350,000	1.74%	3,973,290	-
Dallas County Hospital District	244,186,272,009	0.27940	687,775,000	1.74%	11,967,285	-
Dallas County Schools	243,677,733,215	0.01000	36,600,000	2.08%	761,280	-
Dallas Independent School District	119,329,737,566	1.41200	3,117,050,000	3.49%	108,785,045	950,595,000
Total Direct and Overlapping G.O. Debt					<u>\$ 194,485,787</u>	
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation					4.12%	
Per Capita Overlapping G.O. Debt					\$ 12,340.47	

(1) Less self-supporting debt and the Certificates.

TABLE 8 – PRO FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

	Outstanding Debt Service Requirements ⁽¹⁾			The Certificates ⁽²⁾			Total Debt Service Requirements	Less Amount Supported by Airport Fund ⁽³⁾	Less Amount Supported by Water and Sewer System ⁽³⁾	Less Amount Supported by Drainage	Total Net Tax Supported Debt Service Requirements	% of Principal Retired
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total						
2019	\$ 5,650,000	\$ 3,301,624	\$ 8,951,624	\$ -	\$ 290,332	\$ 290,332	\$ 9,241,957	\$ 748,298	\$ 1,195,638	\$ 546,566	\$ 6,751,454	
2020	4,845,000	3,136,731	7,981,731	215,000	481,838	696,838	8,678,568	854,585	1,514,731	542,791	5,766,461	
2021	4,630,000	2,976,690	7,606,690	475,000	470,413	945,413	8,552,103	717,735	1,516,431	542,266	5,775,670	
2022	4,750,000	2,804,224	7,554,224	490,000	453,488	943,488	8,497,712	718,685	1,525,281	544,766	5,708,979	
2023	4,955,000	2,611,259	7,566,259	510,000	436,038	946,038	8,512,296	718,460	1,532,756	544,991	5,716,089	27.07%
2024	5,160,000	2,401,690	7,561,690	525,000	420,513	945,513	8,507,203	713,410	1,535,131	542,866	5,715,795	
2025	5,390,000	2,186,734	7,576,734	540,000	404,538	944,538	8,521,271	712,885	1,536,331	544,866	5,727,189	
2026	5,640,000	1,957,490	7,597,490	560,000	385,238	945,238	8,542,728	715,210	1,542,831	545,866	5,738,820	
2027	5,895,000	1,708,724	7,603,724	580,000	362,438	942,438	8,546,162	715,210	1,544,047	545,866	5,741,039	
2028	5,690,000	1,454,028	7,144,028	610,000	335,588	945,588	8,089,615	712,735	1,546,325	544,866	5,285,689	58.30%
2029	5,485,000	1,208,152	6,693,152	645,000	304,213	949,213	7,642,364	718,295	1,442,119	544,891	4,937,059	
2030	5,735,000	965,008	6,700,008	670,000	274,688	944,688	7,644,695	715,166	1,444,375	545,914	4,939,240	
2031	5,990,000	722,323	6,712,323	700,000	247,288	947,288	7,659,611	717,684	1,445,459	545,749	4,950,719	
2032	6,210,000	478,811	6,688,811	725,000	218,788	943,788	7,632,598	714,133	1,443,194	544,371	4,930,901	
2033	5,055,000	243,182	5,298,182	755,000	189,188	944,188	6,242,369	719,422	1,442,718	546,703	3,533,526	90.94%
2034	1,995,000	96,288	2,091,288	785,000	161,331	946,331	3,037,619	499,975	1,007,356	-	1,530,288	
2035	570,000	49,950	619,950	805,000	135,494	940,494	1,560,444	496,325	444,169	-	619,950	
2036	585,000	30,459	615,459	835,000	108,322	943,322	1,558,781	496,994	446,328	-	615,459	
2037	610,000	10,294	620,294	865,000	79,634	944,634	1,564,928	496,891	447,744	-	620,294	
2038	-	-	-	895,000	49,375	944,375	944,375	495,988	448,388	-	-	99.05%
2039	-	-	-	930,000	16,856	946,856	946,856	498,881	447,975	-	-	100.00%
	\$ 84,840,000	\$ 28,343,659	\$ 113,183,659	\$ 13,115,000	\$ 5,825,595	\$ 18,940,595	\$ 132,124,254	\$ 13,896,966	\$ 25,449,328	\$ 8,173,341	\$ 84,604,620	

(1) "Outstanding Debt" does not include lease/purchase obligations, includes self-supporting debt.

(2) Average life of the issue – 12.055 years. Interest on the Certificates has been calculated at the rates stated on the cover page hereof.

(3) Includes a portion of the Certificates.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION ⁽¹⁾

General Purpose Debt Service Requirements, Fiscal Year Ending 9/30/19	\$	6,751,454
Budgeted Interest and Sinking Fund Balance, as of 9/30/18	\$	398,024 ⁽²⁾
Budgeted Interest and Sinking Fund Tax Levy Collection		6,769,908
Other Revenues and Income		<u>12,000</u>
		<u>7,179,932</u>
Projected Ending Fund Balance, 9/30/19	\$	<u><u>428,478</u></u>

(1) Source: Town's 2018-2019 Budget.

(2) Preliminary, subject to change.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT**Waterworks and Sewer System**

Net Revenues Available from Waterworks and Sewer System, Fiscal Year 9-30-18	\$	1,589,022 ⁽¹⁾
Less: Waterworks and Sewer System General Obligation Bond Requirements, 2019 Fiscal Year		<u>1,195,638</u>
Balance	\$	<u><u>393,385</u></u>

Percentage of Waterworks and Sewer System General Obligation Bonds Self-Supporting 100.00%

Airport Enterprise Fund

Net Revenues Available from Airport Revenue, Fiscal Year 9-30-18	\$	2,536,794 ⁽¹⁾
Less: Airport Fund General Obligation Bond Requirements, 2019 Fiscal Year		<u>748,298</u>
Balance	\$	<u><u>1,788,496</u></u>

Percentage of Airport Fund General Obligation Bonds Self-Supporting 100.00%

Stormwater Drainage Enterprise Fund

Net Revenues Available from Stormwater Revenue, Fiscal Year 9-30-18	\$	1,618,841 ⁽¹⁾
Less: Drainage Fund General Obligation Bond Requirements, 2019 Fiscal Year		<u>546,566</u>
Balance	\$	<u><u>1,072,275</u></u>

Percentage of Drainage Fund General Obligation Bonds Self-Supporting 100.00%

(1) Preliminary and unaudited information provided by Town staff.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date	Amount	Amount	Unissued
	Authorized	Authorized	Previously	Balance
			Issued	
Street Utilities	5/12/2012	\$ 29,500,000	\$ 6,500,000	\$ 23,000,000
Parking Facilities	5/12/2012	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
		<u><u>\$ 32,500,000</u></u>	<u><u>\$ 6,500,000</u></u>	<u><u>\$ 26,000,000</u></u>

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The Town anticipates issuing additional general obligation debt within the next 12 months in the approximate amount of \$13,000,000.

TABLE 12 - OTHER OBLIGATIONS

As of September 30, 2018, the Town has no unfunded debt outstanding.

PENSION FUND . . . The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 860 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code.

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

Benefits depend upon the sum of the employee's contributions to the plan and the Town-financed monetary credits, with interest. At the date the plan began, the Town granted monetary credits for services rendered before the plan began based on an amount equal to two times what would have been contributed by the employee plus interest. Monetary credits for service since the plan began are 200 percent of the employee's accumulated contributions. Beginning in 1994, the Town adopted an annually repeating type of monetary credit referred to as an updated service credit which when added to the employee's accumulated contributions and the monetary credits for service since the plan began would be the total monetary credits and employee contributions accumulated with interest, if the current employee contribution rate and Town matching percent had always been in existence. The calculation included a three year exponential average of the actual salaries paid during the prior fiscal years.

At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits plus interest were used to purchase an annuity. Also in 1994, the Town adopted annually repeating annuity increases for its retirees equal to 70% of the change in the consumer price index. The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Members can retire at certain ages, based on the years of service with the Town. The service retirement eligibilities for the Town are: 5 years/age 60, 20 years/any age. Plan provisions for the Town are as follows:

Deposit Rate:	7.0%
Matching Ratio (Town to Employeee):	2 to 1
A member is vested after:	5 years

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	191
Inactive Employees Entitled to But Not Yet Receiving Benefits	218
Active Employees	<u>246</u>
	655

Contribution . . . The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Town matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contribution rate for the Town is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Since the Town needs to know its contribution rates in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The Town elected to contribute at the full rates for calendar year 2017 of 10.44%. Accordingly, contributions to TMRS for the year ended September 30, 2017 were \$1,893,931 and were equal to the required contribution.

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

Actuarial assumptions:

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

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

Salary increases were based on service-related tables. Mortality rates for active members and retirees were multiplied by 109% for males and by 103% for females. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were 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 adopted in 2015 and used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

Other Information:

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%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
None-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 9/30/2016	\$ 136,067,935	\$ 109,184,735	\$ 26,883,200
Changes for the year:			
Service cost	2,740,122	-	\$ 2,740,122
Interest	7,721,380	-	7,721,380
Change of benefit terms	(20,027,692)	-	(20,027,692)
Difference between expected and actual experience	(37,547)	-	(37,547)
Changes of assumptions	-	-	-
Contributions - employer	-	1,743,443	(1,743,443)
Contributions - employee	-	1,266,899	(1,266,899)
Net investment income	-	7,376,667	(7,376,667)
Benefit payments, including refunds of employee contributions	(6,038,979)	(6,038,979)	-
Administrative expense	-	(83,336)	83,336
Other changes	-	(4,490)	4,490
Net changes	(15,642,716)	4,260,204	(19,902,920)
Balance at 9/30/2017	\$ 120,425,219	\$ 113,444,939	\$ 6,980,280

The Net Pension Liability change from 2016 of \$26,883,200 to 2017 of \$6,980,280 is due to a change in an actuarial assumption related to the treatment of Ad Hoc COLA awarded by Council in prior years. For GASB 68 compliance, actuarials are expected to consider Ad Hoc COLA's impact on future pension obligations to retirees, if certain criteria are met. In 2016, the Town met the criteria to consider previous Ad Hoc COLAs as substantively recurring for future years. This resulted in the \$26,883,200 potential liability for pension expense. However, in 2017 the Town did not meet the criteria to include Ad Hoc COLAs as recurring so the potential liability was reduced by \$20,027,692, which along with other changes as shown above, led to a liability reduction of \$19,902,920 to a current balance of \$6,980,280. For GASB compliance this difference of \$19,902,920 is considered an adjustment to prior pension expense.

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

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

	1% Decrease Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase Rate (7.75%)
Town's Net Pension Liability	\$ 22,524,156	\$ 6,980,280	\$ (5,878,857)

POSTEMPLOYMENT BENEFITS . . . In addition to the pension benefits described above, as required by state law and defined by Town Policy, the Town makes available health care benefits to all employees who retire from the Town and who are receiving benefits from a Town-sponsored retirement program (Texas Municipal Retirement System and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance, or until age 65 if eligible for Medicare, to eligible retirees, their spouses and dependents through the Town's group health insurance plan, which covers both active and retired members.

Current retirees in the health plan and active employees with 20 years or more of service or at age 60 or more with five years or more of service at retirement are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants. Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report. Benefit provisions for retirees are not mandated by any form of employment agreement. The continued provision of these benefits is based entirely on the discretion of the Town of Addison City Council.

Funding Policy . . . Before age 65, the Town will pay a \$150 monthly stipend toward the retiree's healthcare premium if the retiring employee meets the eligibility criteria at the time of termination and elects coverage in the health plan. For Members who retire after 65 or were eligible for the \$150 stipend before age 65, the Town will pay a \$75 monthly stipend directly to the retiree. Current retirees contribute to the health plan the total blended premium for active and retired participants, less the \$150 stipend provided by the Town. The Town contribution to the health plan consists of total premiums in excess of retiree contributions.

Retirees receiving medical benefits during fiscal year 2017 contribute \$499 to \$1,600 per month depending on coverage levels selected. In fiscal year 2017, total retiree contributions were \$122,754.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) for the health plan is calculated based on the annual required contribution (ARC) of the Town, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The Town of Addison utilized the actuarial services of Gabriel, Roeder, Smith & Company (GRS), a company who has been providing actuarial consulting services since 1938, under the shared services arrangement provided by GRS and North Central Texas Council of Governments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and the net OPEB obligation for 2017.

Annual Required Contribution	\$ 410,841
Interest on OPEB Obligation	26,484
Adjustment to ARC	<u>(25,800)</u>
Annual OPEB Cost (Expense)	\$ 411,525
Contributions Made	<u>(127,439)</u>
Change in OPEB Obligation	\$ 284,086
Net OPEB Obligation (Asset) – Beginning of Year	<u>486,154</u>
Net OPEB Obligation (Asset) – End of Year	\$ 770,240

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB Costs	Actual Contributions	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2015	\$ 201,225	\$ 164,742	81.90%	\$ 465,473
2016	207,455	186,774	90.00%	486,154
2017	235,574	127,439	54.10%	770,240

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FINANCIAL INFORMATION

TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
<u>Program Revenues</u>					
Charges for Services	\$ 6,877,857	\$ 6,580,860	\$ 5,022,039	\$ 5,335,442	\$ 5,604,940
Operating Grants and Contributions	51,063	27,472	25,806	19,093	73,578
Capital Grants and Contributions	-	148,518	158,253	-	-
<u>General Revenues</u>					
Property Taxes	23,572,225	22,593,188	20,385,225	19,484,538	17,975,149
Other Taxes	23,787,700	23,054,458	22,443,410	22,040,521	20,626,694
Other	4,209,687	897,916	772,430	743,851	594,781
Total Revenues	\$ 58,498,532	\$ 53,302,412	\$ 48,807,163	\$ 47,623,445	\$ 44,875,142
Expenses:					
General Government	\$ 7,184,325	\$ 10,015,214	\$ 8,730,944	\$ 7,938,875	\$ 7,021,312
Public Safety	7,021,636	17,528,619	16,820,899	15,765,099	15,229,474
Development Services	100,924	1,278,232	1,032,105	932,247	925,830
Street and Sanitation	6,660,591	6,567,732	8,105,373	6,450,628	8,387,857
Parks and Recreation	4,259,992	5,796,136	5,517,049	5,597,254	5,062,784
Visitor Services	6,839,484	7,537,477	6,106,103	7,358,141	7,239,033
Interest on Long-term Debt	1,713,819	2,417,435	3,018,672	3,037,574	3,054,940
Total Expenses	\$ 33,780,771	\$ 51,140,845	\$ 49,331,145	\$ 47,079,818	\$ 46,921,230
Increase (Decrease) in Net Position	\$ 24,717,761	\$ 2,161,567	\$ (523,982)	\$ 543,627	\$ (2,046,088)
Transfers	800,000	-	-	(4,626,322)	-
Net Position - October 1	134,309,840	132,148,273	132,672,255 ⁽¹⁾	152,362,956	154,409,044 ⁽¹⁾
Net Position - September 30	<u>\$ 159,827,601</u>	<u>\$ 134,309,840</u>	<u>\$ 132,148,273</u>	<u>\$ 148,280,261</u>	<u>\$ 152,362,956</u>

(1) Restated due to GASB No. 65 "Items Previously Reported as Assets and Liabilities".

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

<u>Revenues</u>	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Taxes	\$ 30,004,841	\$ 27,519,752	\$ 25,594,530	\$ 25,753,853	\$ 23,510,020
Franchise Fees	2,601,529	3,074,519	2,828,420	2,818,869	2,695,073
Licenses and Permits	1,225,373	768,964	1,011,223	901,645	886,423
Intergovernmental Revenues	-	15,905	-	-	-
Service Fees	1,802,346	1,691,003	1,507,653	1,485,206	1,469,715
Fines and Forfeitures	426,144	554,393	725,189	877,776	959,684
Interest Income	168,959	101,510	69,431	5,933	3,790
Rental and Other	382,320	430,969	355,574	382,982	305,212
Total Revenues	<u>\$ 36,611,512</u>	<u>\$ 34,157,015</u>	<u>\$ 32,092,020</u>	<u>\$ 32,226,264</u>	<u>\$ 29,829,917</u>
<u>Expenditures</u>					
General Government	\$ 7,854,030	\$ 7,593,648	\$ 7,654,051	\$ 6,639,762	\$ 6,340,932
Public Safety	16,927,651	16,277,101	16,677,666	15,871,423	14,868,330
Development Services	1,158,967	1,207,871	1,090,973	962,584	927,684
Streets	1,942,584	1,791,257	1,803,139	1,727,403	1,724,741
Parks and Recreation	5,020,975	4,906,200	4,755,341	4,874,394	4,289,396
Total Expenditures	<u>\$ 32,904,207</u>	<u>\$ 31,776,077</u>	<u>\$ 31,981,170</u>	<u>\$ 30,075,566</u>	<u>\$ 28,151,083</u>
Revenues Over (Under) Expenditures	\$ 3,707,305	\$ 2,380,938	\$ 110,850	\$ 2,150,698	\$ 1,678,834
Other Sources (Uses), Net	(230,066)	(1,092,000)	(4,015,000)	-	(2,581)
Change in Fund Balance	<u>\$ 3,477,239</u>	<u>\$ 1,288,938</u>	<u>\$ (3,904,150)</u>	<u>\$ 2,150,698</u>	<u>\$ 1,676,253</u>
Beginning Fund Balance	<u>12,890,799</u>	<u>11,601,861</u>	<u>15,506,011 ⁽¹⁾</u>	<u>13,979,398 ⁽¹⁾</u>	<u>12,373,064</u>
Ending Fund Balance	<u><u>\$ 16,368,038</u></u>	<u><u>\$ 12,890,799</u></u>	<u><u>\$ 11,601,861</u></u>	<u><u>\$ 16,130,096</u></u>	<u><u>\$ 14,049,317</u></u>

(1) Restated.

TABLE 14 - MUNICIPAL SALES TAX HISTORY

The Town has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the Town the power to impose and levy a 1% Local Sales and Use Tax within the Town; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the Town monthly.

Fiscal Year Ended 9/30	1% Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2014	\$ 13,440,938	67.20%	\$ 0.3851	\$ 885
2015	13,038,912	60.84%	0.3426	840
2016	12,831,723	54.73%	0.3179	823
2017	14,032,616	58.04%	0.3263	892
2018	15,328,257 ⁽¹⁾	62.48%	0.3444	973

(1) Partial collections through September 30, 2018.

FINANCIAL POLICIES

The financial statements of the Town has been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

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

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

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 50 days of the end of the current fiscal period, with the exception of intergovernmental revenues, which have a one-year period of availability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, landfill closer/post close costs, are recorded only when the liability has matured.

Property taxes, sales taxes, franchise fees and licenses, intergovernmental revenues, certain charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Town receives the cash as the resulting receivables are deemed immaterial.

Budgetary Procedures . . . The City Council follows these procedures in establishing the budgets reflected in the financial statements:

1. At least 60 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. Transfers between expenditure accounts in one department may occur with the approval of the Chief Financial Officer. Transfers between operating departments may occur with the approval of the City Manager and Chief Financial Officer provided that a department's total budget is not changed by more than five percent. Transfers between fund or transfers between departments which change a department's total budget by more than five percent must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council.

For all budgets of the Town, the Town Charter requires only that funds be certified as available for expenditure. Legally, expenditures may exceed budgeted appropriations as long as those expenditures are certified as funds being available.

Budgetary control is maintained at the individual expenditure account level by the review of all requisitions of estimated purchase amounts prior to the release of purchase orders to vendors.

5. Budgets for the General, Special Revenue and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgets for the Capital Project Funds are normally established pursuant to the terms of the related bond indentures, that is, project basis.

Budgeted amounts are as originally adopted or as amended by the City Council.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement (the "Certificate") for Excellence in Financial Reporting to the Town of Addison, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2017. The Certificate is the highest form of recognition for excellence in state and local government financial reporting. A Certificate of Achievement is valid for a period of one year only.

In addition to the Certificate, the Town received GFOA's Award for Distinguished Budget Presentation (the "Award") for its fiscal year 2017 annual budget document. Together, the Award and the Certificate are evidence of the Finance department's dedication to producing documents which effectively communicate the Town's financial condition to elected officials, city administrators, and the general public.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the Town is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed, insured, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) interest-bearing banking deposits that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National credit Union Share Insurance Fund or its successor or (B) 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 Town adopts or (ii) a depository institution with a main office or branch office in this state that the Town selects; and (a) the broker or depository institution selected arranges for the deposit of the funds in the banking deposits in one or more federal insured depository institutions, regardless of where located, for the Town's account; and (b) 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 (c) the Town appoints as the Town's custodian of the banking deposits issued for the Town's account: (1) the depository institution selected pursuant to (ii) above or (2) an entity described by Section 2256.041(d); or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for Town deposits; or (ii) where (a) the funds are invested by the Town through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Town as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the Town; (b) the broker or the depository institution selected by the Town arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Town; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Town appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Town with respect to the certificates of deposit; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the Town, held in the Town's name, and deposited at the time the investment is made with the Town or with a third party selected and approved by the Town and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (10) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper 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, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (14) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. Texas law also permits the Town to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the PFIA.

A political subdivision such as the Town may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Town, held in the Town's name and deposited at the time the investment is made with the Town or a third party designated by the Town; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The Town may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The Town is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the Town is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for Town funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All Town funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each 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, Town investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the Town shall submit an investment report detailing: (1) the investment position of the Town, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest Town funds without express written authority from the City Council.

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

TABLE 15 - CURRENT INVESTMENTS

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

Description	Percent	Book Value	Market Value
TexPool	6.06%	\$ 4,728,542	\$ 4,728,542
TexStar	8.41%	6,561,957	6,561,957
Agency Securites	56.02%	43,734,249	43,681,395
Certificate of Deposit	12.94%	10,104,535	10,104,535
Commercial Paper	16.58%	12,941,401	12,923,605
	<u>100.00%</u>	<u>\$ 78,070,684</u>	<u>\$ 78,000,034</u>

TAX MATTERS

TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law (i) interest on the Certificates is excludable from gross income for federal income tax purposes and (ii) the Certificates are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Certificates is not subject to the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The Town has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes and, in addition, will rely on representations by the Town, the Town's Financial Advisor and the initial purchaser with respect to matters solely within the knowledge of the Town, the Town's Financial Advisor and the initial purchaser, which Bond Counsel has not independently verified. If the Town should fail to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Town as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences . . . Prospective purchasers of the Certificates should be aware that the ownership of tax exempt Certificates may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt Certificates, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium . . . The issue price of a portion of the Certificates exceeds the stated redemption price payable at maturity of such Certificates. Such Certificates (the "Premium Certificates") are considered for federal income tax purposes to have "premium" equal to the amount of such excess. The basis of a Premium Certificate in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Certificate in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Certificate by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of premium on a Premium Certificate that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Certificate) is determined using the yield to maturity on the Premium Certificate based on the initial offering price of such Certificate.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Certificates that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Certificates should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Certificate and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Certificates.

Tax Accounting Treatment of Original Issue Discount Certificates . . . The issue price of a portion of the Certificates is less than the stated redemption price payable at maturity of such Certificates (the "Original Issue Discount Certificates"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate constitutes original issue discount with respect to such Original Issue Discount Certificate in the hands of any owner who has purchased such Original Issue Discount Certificate in the initial public offering of the Certificates. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Certificates under the sub-captions "Tax Exemption", "Additional Federal Income Tax Considerations - Collateral Tax Consequences" and "Additional Federal Income Tax Considerations – Tax Legislative Changes" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Initial Purchasers have purchased the Certificates for contemporaneous sale to the public and (ii) all of the Original Issue Discount Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Town nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Certificates will be offered and sold in accordance with such assumptions.

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

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

Tax Legislative Changes . . . Public Law No. 115-97 (i.e., Tax Cuts and Jobs Act), which makes significant changes to the Code, including changing certain provisions affecting tax-exempt obligations, such as the Certificates, was signed into law on December 22, 2017. The changes include, among others, changes to the federal income tax rates for individuals and corporations and the alternative minimum tax for tax years beginning after December 31, 2017. Further, current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the Town has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The Town is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the Town will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The Town will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the Town of the general type included in this Official Statement under the Tables numbered 1 through 6 and 8 through 15. The Town will update and provide this information in the numbered tables within six months after the end of each fiscal year ending in or after 2018 and, if then available, audited financial statements of the Town. If audited financial statements are not available when the information is provided, the Town will provide audited financial statements when and if they become available, but in any event within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the Town shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the Town may be required to employ from time to time pursuant to State law or regulation. The 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 Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The Town's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced tables must be provided by March 31 in each year, and audited financial statements must be provided by September 30 of each year, unless the Town changes its fiscal year. If the Town changes its fiscal year, it will notify the MSRB of the change.

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

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

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . Under its continuing disclosure agreement for the Town's Combination Tax and Revenue Certificates of Obligation, Series 2008, the Town is required to file notice with the MSRB if the audit of the Town's financial statements is not complete by March 31 in a particular year and, in such event, to file unaudited financial statements for the applicable year by March 31. While the Town included unaudited financial information regarding changes in net assets of governmental activities and General Fund revenues and expenditures in its 2015 Annual Report, the Town did not file unaudited financial statements by March 31, 2016 or make a failure to file notice that the audit of financial statements was not complete by such date. The Town did give notice on its cover sheet for the filing of its Annual Report for fiscal year ended September 30, 2015 filed with the MSRB on March 30, 2016 that the audit of the 2015 financial statements was not available. The Town did file its fiscal year 2015 audited financial statements on May 2, 2016 with the MSRB. The 2015 audited financial statements were not available on March 31 due to internal staffing changes at the Town and the implementation of a new financial management and accounting software system. The Town has since addressed such issues and anticipates timely filing its audited financial statements in accordance with its continuing disclosure undertakings in the future. This was the only instance in the last five years where the Town did not file audited financial statements with the MSRB prior to March 31 in a year.

OTHER INFORMATION

RATINGS

The Certificates and the presently outstanding tax supported debt of the Town are rated "Aaa" by Moody's and "AAA" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the Town makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

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

At the time of the initial delivery of the Certificates, the Town Attorney will notify the Initial Purchasers if there has been any lawsuit or claim challenging the issuance of the Obligation or that affects the payment, delivery or security of the Certificates of which the Town Attorney has been notified.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of at least one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the Town has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS

The Town will furnish a complete transcript 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 and to the effect that the Certificates are valid and legally binding Certificates of the Town, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that, under existing law, the interest on the Certificates will be excludable from gross income for federal income tax purposes and the Certificates are not "private activity bonds," subject to the matters described under "TAX MATTERS" herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Certificates will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinions will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

Hilltop Securities Inc. ("HilltopSecurities"), is employed as Financial Advisor to the Town in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. HilltopSecurities, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER

After requesting competitive bids for the Certificates, the Town accepted the bid of BOK Financial Securities, Inc. (the "Initial Purchaser of the Certificates") to purchase the Certificates at the interest rates shown on the cover page of the Official Statement at a price of par plus a cash premium (if any) of \$493,210.30. The Initial Purchaser of the Certificates can give no assurance that any trading market will be developed for the Certificates after their sale by the Town to the Initial Purchaser of the Certificates. The Town has no control over the price at which the Certificates are subsequently sold and the initial yields at which the Certificates will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser of the Certificates.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

The Ordinance authorized the issuance of the Certificates and approved the form and content of this Official Statement, and any addenda, supplement, or amendment thereto, and authorized its further use in the reoffering of the Certificates by the Purchasers.

/s/ JOE CHOW
Mayor
Town of Argyle, Texas

ATTEST:

/s/ IRMA PARKER
City Secretary

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APPENDIX A

GENERAL INFORMATION REGARDING THE TOWN

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DESCRIPTION OF THE TOWN . . . The Town of Addison (4.4 square miles in area), incorporated in 1953, is located in Dallas County 12 miles north of downtown Dallas. Addison is bounded on the east by the extension of the Dallas North Tollway and is bisected east to west by Belt Line Road.

GOVERNMENT . . . The Town is governed by a City Council composed of six councilmembers and the Mayor. The Mayor and councilmembers serve staggered two-year terms. The day-to-day operations of Addison are conducted by a Town Manager who is selected by the City Council. The Town's Home Rule Charter was adopted in 1978 and was last amended in January, 1993. The charter provides for a City Council comprised of the Mayor and six councilmembers. Under the charter the Mayor may vote on all items coming before the Council.

POPULATION . . . The U.S. Census Bureau set the 1970 population at 550, the 1980 population at 5,553, the 1990 population at 8,783 and the 2010 population at 13,056, and the NCTCOG estimates the 2019 population to be 15,760.

ECONOMY . . . Addison is a prime and desirable location for many businesses seeking relocation in the area.

Among the top employers in the Town are the following:

Company	Type of Business	Estimated Number of Employees
Mary Kay Cosmetics Inc.	Cosmetics	3,001
Bank of America	Finance	1,200
Mattress Giant Corporate Headquarters	Retail Trade	700
Regus Group PLC	Real Estate	590
Barrett Daffin Frappier Turner and Engel LLP	Attorney Firm	550
Expense Reduction Analysts	Consulting Service	501
Intercontinental Hotel Dallas	Hospitality	450
National Bankruptcy Services	Bankruptcy Service	450
Zurich American Insurance Co.	Insurance	400

Source: Town's 2017 Annual Financial Report.

AIRPORT . . . The Town of Addison owns a general aviation airport, a single runway facility. The runway is 7,200 feet in length and can accommodate general aviation aircraft through 120,000 pounds gross weight including Boeing 737's and DC9's. The airport is home to aircraft valued at over \$88 million and houses several fixed base operations, which provide fuel and maintenance services. The airport is used extensively by corporate executives who wish to conduct business in offices located in the north Dallas area.

TRANSPORTATION . . . Direct access to downtown Dallas is afforded via the Dallas North Tollway. Nearby highways and freeways provide convenient access to the entire Dallas/Fort Worth Metroplex including the Richardson telecommunications corridor, the Plano corporate campus, and the Dallas/Fort Worth International Airport.

In addition to Addison Airport, commercial air transportation is available at Dallas' Love Field and at the Dallas/Fort Worth International Airport. Rail service for Addison is provided by the Cotton Belt Railroad and numerous motor freight lines from nearby Dallas are available.

EDUCATIONAL FACILITIES . . . Addison is served by the Dallas Independent School District and the Carrollton-Farmers Branch Independent School District, it is also served by two private schools, Trinity Christian Academy and Greenhill School; all serve the K/12 grades. Brookhaven Community College, a part of the Dallas County Community College, is located in the Town and seven major colleges and universities are located within a 40-mile radius of the Town and include University of North Texas, Southern Methodist University, Texas Christian University, University of Texas at Dallas and University of Texas at Arlington.

BUILDING PERMITS

Fiscal Year	Number of Permits	Commercial	Residential	Total Value
2014	1,256	\$ 66,755,166	\$ 3,376,960	\$ 70,132,126
2015	1,236	72,897,095	980,000	73,877,095
2016	1,435	39,218,963	6,696,915	45,915,878
2017	1,390	200,316,063	2,745,991	203,062,054
2018	922	76,853,840	51,544,579	128,398,419

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APPENDIX B

TOWN OF ADDISON, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the Town of Addison, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the Town's financial condition. Reference is made to the complete Report for further information.

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Independent Auditor's Report

The Honorable Mayor and
Members of the Town Council
Town of Addison, Texas
Page 9

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Addison, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the North Dallas County Water Supply Corporation, a joint venture between the Town of Addison and the City of Farmers Branch, which statements reflect total net position of \$12,081,428 of which 55% (6,644,785) is recorded in the statement of net position and represents 5.8% of the business-type activities total assets. The financial statements of the North Dallas County Water Supply Corporation were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included as equity in joint venture, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Addison, Texas, as of September 30, 2017, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other post-employment benefits 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The Honorable Mayor and
Members of the Town Council
Town of Addison, Texas
Page 11

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.

BKD, LLP

Dallas, Texas
February 15, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

As management of the Town of Addison, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Addison for the fiscal year ended September 30, 2017. Readers are encouraged to read this narrative in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section. ***All amounts reported in this MD&A, unless otherwise indicated, are expressed in thousands of dollars (000's).***

Financial Highlights

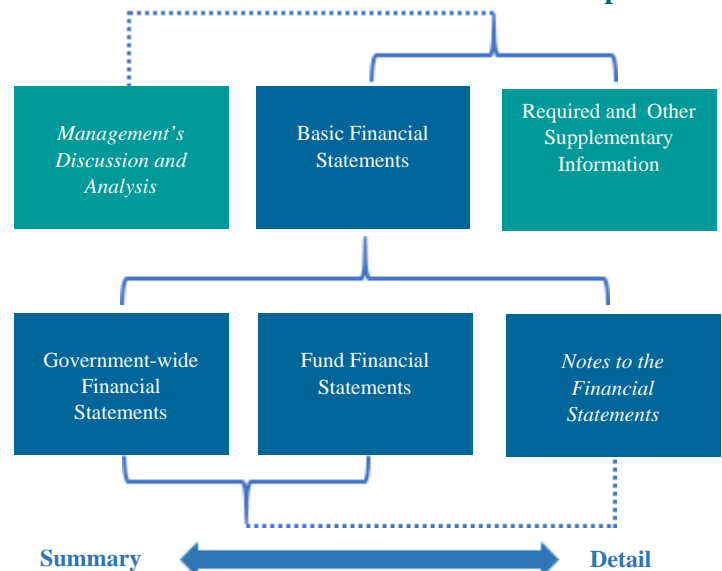
- The Town's assets and deferred outflows exceeded its liabilities and deferred inflows of resources at the close of the 2017 fiscal year by \$247,410. This amount represents an increase over the previous year of \$25,643. The increase is primarily the result of payments of debt principal and prepaid expenses that will be recognized in future periods.
- As of September 30, 2017, the Town's governmental funds reported combined ending fund balances of \$52,395, an increase of \$255. The majority of the increase is due to the net excess from proceeds received from the sale of property and additional capital project expenditures.
- At the end of the 2017 fiscal year, the fund balance for the General Fund was \$16,368, or 49.7 percent of total fund expenditures. Fund balance increased \$3,477 during the year.
- At year-end, the Town of Addison's outstanding long-term liabilities totals \$106,748, a decrease of \$28,184 from the previous year, which is attributed to the decrease in net pension liability and the scheduled retirement of existing debt during the year.

Overview of Financial Statements

This annual report is comprised of four segments as dictated by generally accepted accounting principles (GAAP): *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and *other supplementary information*. The basic financial statements include two kinds of statements that present different views of the Town.

- The *government-wide financial statements* provide both long-term and short-term information about the Town's overall financial status.
- The fund financial statements focus on individual parts of Addison's government, reporting the Town's operations in more detail than the government-wide statements.
 - The *governmental funds statements* explain how general government services such as public safety were financed in the short-term, as well as what remains for future spending.
 - *Proprietary fund statements* offer short-term and long-term financial information about the activities the government operates as business-like, such as the airport.

Illustration A-1 Required Components of Town of Addison's Annual Financial Report



The financial statements also include *notes*, which elaborate on some of the information in the financial statements, providing more detailed data. These financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Illustration A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included other information such as the Town's statistical section, which, through the use of tables, presents comparative economic and financial data to give users of this report a perspective of the Town's financial performance over a number of years.

Illustration A-2 summarizes the major features of the Town's financial statements. The remainder of this overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Illustration A-2 Major Features of Town of Addison's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Town government	Activities of the Town that are not proprietary, such as police, fire, and parks	Activities the Town operates similar to a private-sector business: airport, water/sewer utility, and storm water
Required financial statements	<ul style="list-style-type: none"> * Statement of net position * Statement of activities 	<ul style="list-style-type: none"> * Balance Sheet * Statement of revenues, expenditures, and changes in fund balances * Budget and actual 	<ul style="list-style-type: none"> * Statement of net position * Statement of revenues, expenses, and changes in net position * Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All Revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Addison's finances in a manner similar to a private-sector business. These statements can be located on pages 21-22 of this document.

- The *statement of net position* presents information on all of the Town's asset, liabilities, and deferred inflows and outflows, with the difference reported as *net position*. Over time, increases or decreases in net position **may** indicate the improvement or deterioration of the Town's financial position.
- The *statement of activities* presents information showing the Town's change in net position during the concluded 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.

The government-wide financial statements of the Town are divided into two categories:

- *Governmental activities* – These are functions such as fire, police, and other services that are principally supported by taxes and intergovernmental revenue.
- *Business-type activities* – These functions are intended to recover all or a significant portion of their costs through user fees and charges. The Town's airport, utility system and storm water system fall within this category.

Fund Financial Statements

A *fund* is a grouping of related accounts used to maintain control over resources which have been segregated for specific activities or objectives. The Town of Addison, 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 Town can be divided into two categories: governmental funds and proprietary funds.

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

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 **short-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 Town of Addison maintains 11 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 all these funds, with the exception of the Economic Development Fund, Municipal Court Fund, Public Safety Fund, Advanced Funding Grant Fund, Reimbursement Grant Fund and PEG Fees Fund, which are considered non-major funds and are combined into a single, aggregated presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements elsewhere in this report.

The Town adopts an annual appropriated budget for almost all its governmental funds. A budgetary comparison statement is provided for each fund to demonstrate compliance with this budget except for the Capital Projects and Reimbursement Grant Funds.

Proprietary Funds – Services for which the Town charges customers a fee are generally reported in the proprietary funds. Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The Town of Addison maintains two different types of proprietary funds.

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its general aviation airport, storm water (drainage), and its utility (water and sewer) system.
- *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles and its technological information systems. Both of these services predominantly benefit governmental rather than business-type functions hence they have been included within *governmental activities* in the government-wide financial statements.

The proprietary fund financial statements provide separate information for Addison's airport, utility system, and storm drainage system, all of which are considered to be major funds of the Town of Addison. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-66 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Addison's funding of its obligations to provide pension benefits to Town employees through the Texas Municipal Retirement System (TMRS) and to provide other postemployment benefits to Town employees upon retirement.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented on pages 72-81.

Government-wide Financial Analysis

As of the close of the 2017 fiscal year, the Town's net position (assets and deferred outflows exceeding liabilities and deferred inflows) totaled \$247,410 (see Table A-1). Of this amount \$190,286, or 77 percent, represents the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Town of Addison uses these capital assets to provide services to the community, these assets are not available for future spending. A portion of net position has been restricted for the Town's long-term general obligation debt (\$500), promotion of tourism and hotel industry (\$4,334) and other restrictions (\$509). The remaining amount of net position is labeled as unrestricted and totals \$51,781. This amount is available to meet the Town's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Addison is able to report positive balances in these three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Table A-1
Town of Addison's Net Position (000's)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current and Other Assets	\$ 64,631	\$ 65,772	\$ 33,059	\$ 33,823	\$ 97,690	\$ 99,595
Capital Assets	174,367	172,235	80,557	83,263	254,924	255,498
Total Assets	238,998	238,007	113,616	117,086	352,614	355,093
Deferred Outflows of Resources:						
Deferred Charges	1,583	1,714	435	469	2,018	2,183
Def Outflows of Pensions-Contributions	1,539	1,376	97	85	1,636	1,461
Def Outflows of Pensions-Difference in Earnings	4,849	6,537	283	404	5,132	6,941
Def Outflows of Pensions-Assumption Changes	235	337	14	21	249	358
Total Deferred Outflows of Resources	8,206	9,964	829	979	9,035	10,943
Liabilities:						
Long-Term Liabilities Outstanding	82,270	107,613	24,478	27,318	106,748	134,931
Other Liabilities	4,140	4,628	2,332	3,204	6,472	7,832
Total Liabilities	86,410	112,241	26,810	30,522	113,220	142,763
Deferred Inflows of Resources:						
Deferred Inflows of Pensions	966	1,420	53	86	1,019	1,506
Total Deferred Inflows of Pensions	966	1,420	53	86	1,019	1,506
Net Position:						
Net Investment in Capital Assets	124,923	122,080	65,363	62,547	190,286	184,627
Restricted :						
Debt Service	500	661	-	-	500	661
Tourism/Hotel	4,334	3,870	-	-	4,334	3,870
Child Safety	87	98	-	-	87	98
Justice Administration	22	31	-	-	22	31
Court Technology	75	86	-	-	75	86
Building Security	54	64	-	-	54	64
Public Safety	33	34	-	-	33	34
Court Security	47	28	-	-	47	28
Other Purposes	191	327	-	-	191	327
Unrestricted	29,562	7,031	22,219	24,910	51,781	31,941
Total Net Position	\$ 159,828	\$ 134,310	\$ 87,582	\$ 87,457	\$ 247,410	\$ 221,767

As reflected in Table A-2, the Town's net position increased \$25,643 during the 2017 fiscal year.

Table A-2
Town of Addison's Changes in Net Position (000's)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,878	\$ 6,581	\$ 18,497	\$ 17,848	\$ 25,375	\$ 24,429
Capital Grants & Contributions	-	149	148	2,131	148	2,280
Operating Grants & Contributions	51	27	50	129	101	156
General Revenues:						
Property Taxes	23,572	22,593	-	-	23,572	22,593
Other Taxes	23,788	23,054	-	-	23,788	23,054
Other	4,211	898	228	288	4,439	1,186
Total Revenues	58,500	53,302	18,923	20,396	77,423	73,698
Expenses:						
General Government	7,184	10,015	-	-	7,184	10,015
Public Safety	7,022	17,529	-	-	7,022	17,529
Development Services	101	1,278	-	-	101	1,278
Streets	6,661	6,568	-	-	6,661	6,568
Parks & Recreation	4,260	5,796	-	-	4,260	5,796
Visitor Services	6,839	7,537	-	-	6,839	7,537
Interest and Fiscal Charges on Long-Term Debt	1,714	2,417	-	-	1,714	2,417
Airport	-	-	6,509	6,455	6,509	6,455
Storm water	-	-	1,408	2,092	1,408	2,092
Water & Sewer Utility	-	-	10,081	10,822	10,081	10,822
Total Expenses	33,781	51,140	17,998	19,369	51,779	70,509
Increase (decrease) in net position	24,718	2,162	925	1,027	25,643	3,189
Transfers	800	-	(800)	-	-	-
Change in Net Position	25,518	2,162	125	1,027	25,643	3,189
Net Position - Beginning	134,310	132,148	87,457	86,430	221,767	218,578
Net Position - Ending	\$ 159,828	\$ 134,310	\$ 87,582	\$ 87,457	\$ 247,410	\$ 221,767

Illustration A-3
Total Sources of Revenue

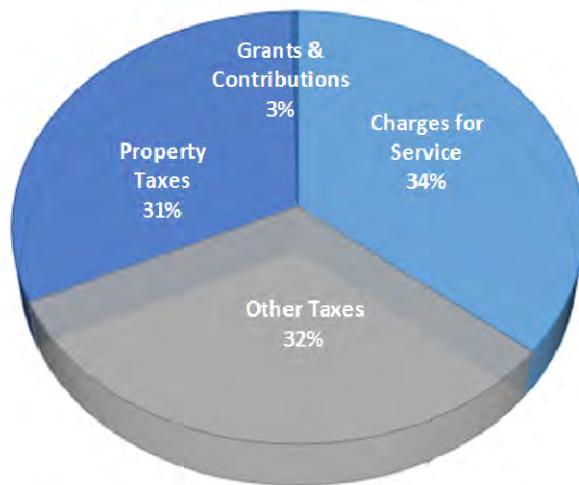
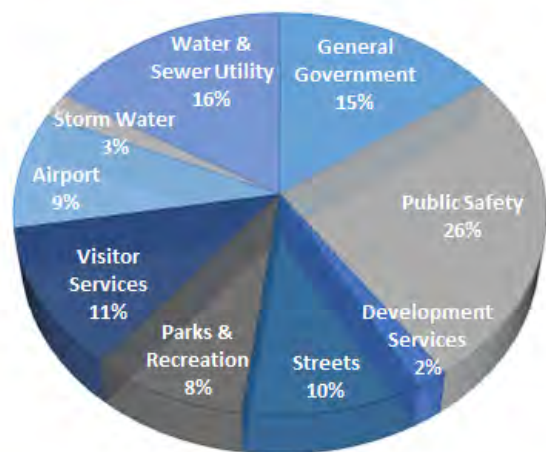


Illustration A-4
Total Expenses by Activity



Governmental Activities

Governmental activities increased the Town of Addison's net position by \$25,518 primarily due to a \$3.2 million sale of town property and a \$20.0 million decrease to pension expense as a result of a change in actuarial assumptions related to the treatment of Ad Hoc COLA which are no longer considered recurring for future pension obligations.

Business-Type Activities

The Town's business-type activities experienced a \$125 increase in net position with the Airport Fund recording a decrease of \$920, while the Utility Fund posted an increase of \$292, and the Storm Water Fund an increase of \$754.

Financial Analysis of the Government Funds

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

As of September 30, 2017, the Town's governmental funds reported combined ending fund balances of \$52,395, an increase of \$255 compared to balances a year earlier. Of the ending balance, \$15,879 or 30 percent is *unassigned* and is available to the Town for future spending. Most of the remaining fund balance is *restricted* for future capital projects (\$21,834), promotion of tourism and hotel industry (\$4,331), debt service (\$371) or *committed* for Economic Development (\$1,257) and Capital Projects (\$7,688). Components of the net increase of total fund balance are:

- In the General Fund, expenditures and transfers out totaled \$36,347 compared to revenues of \$36,612. Revenues increased \$2,454 from the previous year. The increase was mainly due to receiving higher ad valorem taxes as a result of higher appraised value of property in Addison. Expenditures increased \$1,128 from the 2016 fiscal year. This increase is primarily due to public safety (\$651) and general government expenditures (\$260).
- In the Hotel Fund, expenditures and transfers out to other funds totaled \$8,855 compared to revenues of \$9,307. Fund revenues decreased \$373 from the previous year, due to a decrease in non-property taxes. Expenditures increased \$518 from fiscal year 2016 due in large part to the change in reporting revenues and expenditures for special events as separate line items instead of revenues net of expenses, as previously reported.
- Capital project funds recorded a net decrease in fund balance of \$3,640, primarily due to ongoing expenditures for capital projects. Included in these funds is the Infrastructure Investment Fund with an ending fund balance of \$3,722 as of September 30, 2017. Other balances included are for capital projects funded with bond proceeds such as the 2012 and 2014 G.O. Bonds issued as well as savings from general operations transferred to the Self-Funded Project fund for future capital projected.

Proprietary funds - The Town of Addison's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net position of the Airport Fund at the end of the fiscal year amounted to \$5,115; the Utility Fund reported an unrestricted net position of \$12,664, while the Stormwater Fund reported an unrestricted net position of \$4,440.

General Fund Budgetary Highlights

Major differences between the original budget and the final amended budget are described below, ***not expressed in thousands of dollars (000's)***:

- Other Financing Sources were amended to recognize increases in sale of city property by \$3,212,000 and an increase of \$1,297,000 in other financing uses for transfers out to self-funded capital projects. Other allocations for merit pay to various departments were made that did not result in a net change to appropriations.

The adjustments resulted in increasing budgeted revenue 9.0 percent and increasing expenditures by 3.5 percent. \$1,297,000 was transferred to the Self-Funded Project Fund for future capital needs.

The final actuals resulted in revenues of 2.6 percent higher than the revised budget, and expenditures 6.7 percent lower than the revised budget. The savings in expenditures resulted from lower than expected salary expenses due to vacancies, lower than expected expenses for the implementation of new software systems, and lower expenses than expected resulting from the outsourcing of public safety emergency communications.

Capital Asset and Debt Administration

Capital assets – As detailed in Table A-3 below, the Town of Addison's investment in capital assets for its governmental and business-type activities as of September 30, 2017, totals \$254,924 (net of accumulated depreciation). This amount represents a \$574 decrease from the previous year and is attributed to disposal of obsolete assets and depreciation of existing assets. Projects that are in progress include the Belt Line Road Utility Undergrounding, Pedestrian Connectivity, Midway Road Revitalization, and Addison Road Rehabilitation. More information related to the Town's capital assets can be found in Sections; I, D, 4 and III, D of the Notes to Financial Statements.

Table A-3
Town of Addison's Capital Assets
(Net of Depreciation) (000's)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 66,250	\$ 66,313	\$ 16,945	\$ 16,945	\$ 83,195	\$ 83,258
Intangible Assets	377	168	-	-	377	168
Buildings	8,902	9,419	8,008	8,222	16,910	17,641
Improvements other than Buildings	68,530	72,005	52,715	55,917	121,245	127,922
Machinery and Equipment	6,552	5,072	1,238	1,225	7,790	6,297
Construction in Progress	23,756	19,258	1,651	954	25,407	20,212
Total Capital Assets	\$ 174,367	\$ 172,235	\$ 80,557	\$ 83,263	\$ 254,924	\$ 255,498

Long-term debt – At the end of the 2017 fiscal year, the Town of Addison had total bonded debt outstanding of \$97,953 as detailed in Table A-4. The Town of Addison maintains an underlying bond rating of “AAA” from Standard & Poor’s and “Aa1” from Moody’s. Several of the Town’s outstanding debt issuances are insured. More information related to the Town’s long-term debt can be found in Section III, F of the Notes to Financial Statements.

Table A-4
Town of Addison's Outstanding Debt (000's)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 59,975	\$ 65,165	\$ 7,663	\$ 8,122	\$ 67,638	\$ 73,287
Certificates of Obligation	14,009	15,643	16,306	17,311	30,315	32,954
Total Debt Outstanding	\$ 73,984	\$ 80,808	\$ 23,969	\$ 25,433	\$ 97,953	\$ 106,241

Economic Factors and Next Year’s Budget and Rates

The development of the Town's budget is guided by several factors including the Town's strategic plan and prevailing economic conditions. The fiscal year 2018 budget plan adopted by the City Council adheres to the Town's financial policies and preserves the Town's strong financial position while providing excellent levels of service. The annual budget is adopted within context of five-year financial plans for the General, Hotel, Airport, and Utility funds. The long-term financial plans project major operating revenues and categories of expenses. Changes in fund balances are monitored to ensure that the Town is in compliance with adopted fund balance policy.

Major programs in the General Fund continue to focus on public safety, community development and parks to ensure the high quality of life enjoyed by Addison citizens and visitors.

Revenue assumptions in the General Fund are expected to take into consideration current economic indicators. Revenues, such as property tax revenue and sales tax revenue, are forecasted using both historical results and current trends. Certified taxable property values in Addison totaled \$4,450,533,504 for fiscal year 2018 which represented a 3.5 percent increase from the previous year. The property tax rate was decreased from \$0.560472 to \$0.550000 per \$100 appraised value. Of the 2018 budget tax rate, \$0.397000 was levied for operation/maintenance and \$0.1530000 for debt service.

Sales tax collections for the Town were conservatively budgeted from the amount collected in 2017. Sales tax collections were projected to remain the same in fiscal year 2018 compared to the 2017 budget.

Hotel occupancy tax collections were budgeted to decrease slightly by approximately 4.0% between fiscal year 2017 and fiscal year 2018.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town of Addison's finances and to show the Town's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following:

Town of Addison
Finance Department
P.O. Box 9010
Addison, TX 75001
Telephone: (972) 450-7050
Email: oriley@addisontx.gov





Town of Addison, Texas
Basic Financial Statements

TOWN OF ADDISON
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 58,446,841	\$ 23,865,720	\$ 82,312,561
Receivables, Net of Allowances for Uncollectibles	4,906,551	2,485,513	7,392,064
Prepaid Items	488,111	63,139	551,250
Inventories, at Cost	39,550	-	39,550
Investment in Joint Venture	749,908	6,644,785	7,394,693
Capital Assets, Net of Accumulated Depreciation			
Land	66,249,935	16,945,437	83,195,372
Intangible Assets	377,379	-	377,379
Buildings	8,902,380	8,008,432	16,910,812
Improvements other than Buildings	68,529,874	52,715,106	121,244,980
Machinery and Equipment	6,551,649	1,237,610	7,789,259
Construction in Progress	23,755,983	1,650,555	25,406,538
Total Assets	238,998,161	113,616,297	352,614,458
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Refundings	1,582,902	435,836	2,018,738
Deferred Outflows on Pensions-Contributions	1,539,279	97,074	1,636,353
Deferred Outflows on Pensions-Difference in Earnings	4,848,936	282,941	5,131,877
Deferred Outflows on Pensions-Assumption Changes	234,582	13,723	248,305
Total Deferred Outflows of Resources	8,205,699	829,574	9,035,273
LIABILITIES			
Accounts Payable and Accrued Liabilities	4,138,005	855,989	4,993,994
Customer Deposits	2,169	1,475,993	1,478,162
Long-Term Liabilities			
Due within One Year	5,007,671	1,413,352	6,421,023
Due in More Than One Year	77,261,956	23,064,917	100,326,873
Total Liabilities	86,409,801	26,810,251	113,220,052
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows on Pensions	966,458	53,007	1,019,465
Total Deferred Inflows of Resources	966,458	53,007	1,019,465
NET POSITION			
Net Investment in Capital Assets	124,922,785	65,363,662	190,286,447
Restricted for:			
Debt Service	500,094	-	500,094
Promotion of Tourism and Hotel Industry	4,334,037	-	4,334,037
Child Safety	86,906	-	86,906
Justice Administration	21,851	-	21,851
Court Technology	74,667	-	74,667
Building Security	53,584	-	53,584
Court Security	46,900	-	46,900
Public Safety	33,238	-	33,238
Other Purposes	191,575	-	191,575
Unrestricted	29,561,964	22,218,951	51,780,915
Total Net Position	\$ 159,827,601	\$ 87,582,613	\$ 247,410,214

See accompanying notes to basic financial statements

TOWN OF ADDISON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions/Programs	Program Revenues					Net (Expense)/Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Primary Government
Primary Government:								
Governmental Activities:								
General Government	\$ 7,184,325	\$ 961,336	\$ -	\$ -	\$ (6,222,989)	\$ -	\$ (6,222,989)	
Public Safety	7,021,636	947,071	9,497	-	(6,065,068)	-	(6,065,068)	
Development Services	100,924	1,242,223	-	-	1,141,299	-	1,141,299	
Streets	6,660,591	391,126	816	-	(6,268,649)	-	(6,268,649)	
Parks and Recreation	4,259,992	86,595	40,750	-	(4,132,647)	-	(4,132,647)	
Visitor Services	6,839,484	3,249,506	-	-	(3,589,978)	-	(3,589,978)	
Interest on Long-Term Debt	1,713,819	-	-	-	(1,713,819)	-	(1,713,819)	
Total Governmental Activities	33,780,771	6,877,857	51,063	-	(26,851,851)	-	(26,851,851)	
Business-Type Activities:								
Airport	6,509,127	5,479,786	50,000	-	-	(979,341)	(979,341)	
Utilities	10,081,401	10,983,136	-	85,362	-	987,097	987,097	
Stormwater	1,408,133	2,034,484	-	62,796	-	689,147	689,147	
Total Business-Type Activities	17,998,661	18,497,406	50,000	148,158	-	696,903	696,903	
Total Primary Government	\$ 51,779,432	\$ 25,375,263	\$ 101,063	\$ 148,158	(26,851,851)	696,903	(26,154,948)	
GENERAL REVENUES								
Taxes								
Property Taxes, Levied for General Purposes					23,572,225	-	23,572,225	
Sales Taxes					15,126,354	-	15,126,354	
Franchise Taxes					2,664,422	-	2,664,422	
Hotel/Motel Taxes					5,996,924	-	5,996,924	
Interest on Investments					472,896	185,046	657,942	
Miscellaneous					3,736,791	43,048	3,779,839	
Transfers					800,000	(800,000)	-	
Total General Revenues					52,369,612	(571,906)	51,797,706	
Change in Net Position					25,517,761	124,997	25,642,758	
NET POSITION, Beginning of Year					134,309,840	87,457,616	221,767,456	
NET POSITION, End of Year					\$ 159,827,601	\$ 87,582,613	\$ 247,410,214	

Town of Addison, Texas
Basic Financial Statements

Governmental Funds
Balance Sheet
September 30, 2017

	General Fund	Hotel	General Obligation Debt Service	Hotel Debt Service	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS:							
Cash and Investments	\$ 16,594,073	\$ 3,565,994	\$ 370,437	\$ 483,748	\$ 30,202,338	\$ 1,815,072	\$ 53,031,662
Receivables:							
Ad Valorem Taxes, Including Interest and Penalties, Net	247,743	-	142,084	-	3,170	15,933	408,930
Non-Property Taxes	2,435,472	566,956	-	-	-	-	3,002,428
Franchise Fees	299,391	-	-	-	-	-	299,391
Service Fees, Net	596,618	-	-	-	-	-	596,618
Ambulance, Net	397,233	-	-	-	-	-	397,233
Interest	35,870	6,981	558	8,309	48,608	12,131	112,457
Other	25,738	54,998	-	-	-	-	80,736
Prepaid Items	449,442	-	-	-	-	38,669	488,111
Inventories, At Cost	39,550	-	-	-	-	-	39,550
Total Assets	\$ 21,121,130	\$ 4,194,929	\$ 513,079	\$ 492,057	\$ 30,254,116	\$ 1,881,805	\$ 58,457,116
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE:							
Liabilities:							
Accounts Payable and Accrued Liabilities	\$ 2,481,668	\$ 310,729	\$ 468	\$ -	\$ 728,494	\$ 61,388	\$ 3,582,747
Intergovernmental Payable	5,340	-	-	-	-	-	5,340
Customer Deposits	2,169	-	-	-	-	-	2,169
Total Liabilities	2,489,177	310,729	468	-	728,494	61,388	3,590,256
Deferred Inflows of Resources:							
Unavailable Resources	2,263,915	45,012	142,084	-	3,170	18,113	2,472,294
Total Deferred Inflows of Resources	2,263,915	45,012	142,084	-	3,170	18,113	2,472,294
Fund Balances:							
Nonspendable							
Inventories	39,550	-	-	-	-	-	39,550
Prepaid Items	449,442	-	-	-	-	38,669	488,111
Restricted							
Debt Service	-	-	370,527	-	-	-	370,527
Promotion of Tourism and Hotel Industry	-	3,839,188	-	492,057	-	-	4,331,245
Capital Projects	-	-	-	-	21,834,283	-	21,834,283
Child Safety	-	-	-	-	-	86,906	86,906
Justice Administration	-	-	-	-	-	21,851	21,851
Court Technology	-	-	-	-	-	74,667	74,667
Building Security	-	-	-	-	-	53,584	53,584
Court Security	-	-	-	-	-	46,900	46,900
Public Safety	-	-	-	-	-	31,059	31,059
Other Purposes	-	-	-	-	-	191,575	191,575
Committed							
Capital Projects	-	-	-	-	7,688,169	-	7,688,169
Economic Development	-	-	-	-	-	1,257,093	1,257,093
Unassigned	15,879,046	-	-	-	-	-	15,879,046
Total Fund Balance	16,368,038	3,839,188	370,527	492,057	29,522,452	1,802,304	52,394,566
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 21,121,130	\$ 4,194,929	\$ 513,079	\$ 492,057	\$ 30,254,116	\$ 1,881,805	\$ 58,457,116

See accompanying notes to basic financial statements

Town of Addison, Texas
Basic Financial Statements

TOWN OF ADDISON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds	\$ 52,394,566
The Town uses internal service funds to charge the costs of certain activities such as replacement of capital assets and information technology to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position. The effect of this consolidation is to increase net position.	11,365,501
Capital assets used in governmental activities, including infrastructure and developer contributions, are not financial resources and therefore are not reported in fund financial statements. Capital assets of \$168,214,720, net of accumulated depreciation of \$121,438,124, exclusive of the capital assets of internal service funds with a net carrying value of \$6,152,480, included above, increased net position in the government-wide financial statements.	168,214,720
Investments in Joint Venture are not financial resources and are not reported in the fund financial statements. Investments in Joint Venture of \$749,908 increased net position in the government-wide financial statements.	749,908
Deferred losses on refundings of debt have been reflected net of amortization in the government-wide financial statements.	1,582,902
Bonds payable, contractual obligations, and related premium and discount amounts have not been included in the fund financial statements.	(73,984,053)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(737,696)
Net OPEB obligation is not reflected in the fund financial statements.	(747,371)
Deferred outflows on pension costs, net of amortization, are not reflected in fund financial statements.	6,622,797
Deferred inflows on pension costs, net of amortization, are not reflected in fund financial statements.	(966,458)
Net pension liability is not reflected in fund financial statements.	(6,800,507)
Interest payable on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due. The effect of recording accrued interest is to decrease net position.	(339,002)
Revenue from property taxes, sales taxes, franchise fees, court bonds, ambulance billing, and intergovernmental grants is a deferred inflow in the fund financial statements until it is considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible accounts, in the government-wide statements.	2,472,294
Net Position of Governmental Activities	\$ 159,827,601

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2017

	General Fund	Hotel	General Obligation Debt Service	Hotel Debt Service	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:							
Ad Valorem Taxes	\$ 14,742,517	\$ -	\$ 7,524,590	\$ -	\$ 260,037	\$ 994,498	\$ 23,521,642
Non-Property Taxes	15,262,324	5,954,704	-	-	-	-	21,217,028
Franchise Fees	2,601,529	-	-	-	-	62,893	2,664,422
Licenses and Permits	1,225,373	-	-	-	-	-	1,225,373
Intergovernmental	-	-	-	-	-	15,565	15,565
Service Fees	1,802,346	2,617,265	-	-	40,000	60,747	4,520,358
Fines and Forfeitures	426,144	-	-	-	-	22,334	448,478
Court Awards	-	-	-	-	-	20,256	20,256
Earnings on Investments	168,959	32,811	12,401	1,663	-	15,366	472,896
Rental Charges	77,330	627,371	-	-	-	-	704,701
Recycling Proceeds	3,258	-	-	-	-	-	3,258
Other	301,732	75,259	13,934	-	58	900	391,883
Total Revenues	36,611,512	9,307,410	7,550,925	1,663	541,791	1,192,559	55,205,860
EXPENDITURES:							
Current:							
General Government	7,854,030	-	3,734	-	-	199,868	8,057,632
Public Safety	16,927,651	-	-	-	-	17,476	16,945,127
Development Services	1,158,967	-	-	-	-	-	1,158,967
Streets	1,942,584	-	-	-	-	-	1,942,584
Parks and Recreation	5,020,975	-	-	-	-	-	5,020,975
Visitor Services	-	7,595,136	-	-	-	-	7,595,136
Municipal Court	-	-	-	-	-	66,616	66,616
Economic Development	-	-	-	-	-	1,747,749	1,747,749
Debt Service:							
Principal Retirement	-	-	4,938,331	680,000	-	-	5,618,331
Interest and Fiscal Charges	-	-	2,779,407	31,200	-	-	2,810,607
Capital Projects:							
Engineering and Contractual Services	-	-	-	-	416,179	-	416,179
Construction and Equipment	-	-	-	-	7,583,129	-	7,583,129
Total Expenditures	32,904,207	7,595,136	7,721,472	711,200	7,999,308	2,031,709	58,963,032
Excess/(Deficiency) of Revenues over Expenditures	3,707,305	1,712,274	(170,547)	(709,537)	(7,457,517)	(839,150)	(3,757,172)
OTHER FINANCING SOURCES/(USES):							
Transfers In	-	-	-	-	-	-	-
Transfers Out	(3,442,676)	(1,259,500)	-	711,500	5,939,705	973,000	7,624,205
Proceeds on Asset Sales	3,212,610	-	-	-	(2,122,029)	-	(6,824,205)
Total Other Financing Sources/(Uses)	(230,066)	(1,259,500)	-	-	-	-	3,212,610
Net Change in Fund Balance	3,477,239	452,774	(170,547)	1,963	(3,639,841)	133,850	255,438
Fund Balances at Beginning of Year	12,890,799	3,386,414	541,074	490,094	33,162,293	1,668,454	52,139,128
Fund Balances at End of Year	\$ 16,368,038	\$ 3,839,188	\$ 370,527	\$ 492,057	\$ 29,522,452	\$ 1,802,304	\$ 52,394,566

See accompanying notes to basic financial statements.

TOWN OF ADDISON
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	255,438
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The Town uses internal service funds to charge the costs of certain activities such as replacement of capital assets and information technology to appropriate functions in other funds. The revenues and expenses of the internal service funds are included in governmental activities in the government-wide statement of activities. The effect of this consolidation is to increase net position.

		149,951
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Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of removing the capital outlays is to increase net position.

		8,157,801
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Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position.

		(6,742,471)
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Losses on capital asset disposals are not recognized in fund financial statements.		(409,414)
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The Town's share of net loss from Investment in Joint Venture is not reflected in fund financials.		(34,376)
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The issuance of long term debt increases the current financial resources of governmental funds while the repayment of the principal of long term debt consumes the current financial resources of governmental funds, but both have no effect on net position. The amortization of prepaid insurance associated with the issuance of long-term debt, bond premiums, bond discounts, and deferred gain/loss on refunding of long term debts is reported in the statement of activities but does not require the use of current financial resources. Therefore the effect of the amortization of these various items are not reported in the statement of revenues, expenditures, and changes in fund balance. This amount represents the increase(decrease) in net position of the following:

Bond repayments	5,618,331		
Amortization	1,074,219		6,692,550

The change in compensated absences liability is not shown in the fund financial statements. The net effect of the current year's decrease in liability is to increase net position.		211,987
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The change in the net OPEB obligation is not shown in the fund financial statements. The effect of recording the increase in liability is to decrease net position.		(261,218)
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Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements an interest expenditure is reported when due. The effect of recording the decrease in accrued interest is to increase net position.		22,569
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Decrease in pension liability of \$18,568,805 and amortization of pension costs in the amount of (\$1,173,927) increase net position by reducing the pension expense in each function.		17,394,878
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Revenue from property taxes, sales taxes, franchise fees, court bonds, ambulance billing, and intergovernmental grants not recognized in fund financial statements on the modified accrual basis is recognized on the accrual basis in the government-wide financial statements.		80,066
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Change in Net Position of Governmental Activities	\$	<u>25,517,761</u>
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See accompanying notes to basic financial statements

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended September 30, 2017

	Budget		Actual GAAP	Variance With
	Original	Final	Basis	Final Budget
				Positive
				(Negative)
REVENUES				
Taxes:				
Ad Valorem Taxes:				
Current	\$ 14,826,545	\$ 14,826,545	\$ 14,702,022	\$ (124,523)
Delinquent	3,096	3,096	(4,428)	(7,524)
Penalties and Interest	15,483	15,483	44,923	29,440
Total Ad Valorem	<u>14,845,124</u>	<u>14,845,124</u>	<u>14,742,517</u>	<u>(102,607)</u>
Non-Property Taxes:				
Sales Tax	13,400,000	13,400,000	14,032,616	632,616
Alcoholic Beverage Tax	1,260,000	1,260,000	1,229,708	(30,292)
Total Non-Property Taxes	<u>14,660,000</u>	<u>14,660,000</u>	<u>15,262,324</u>	<u>602,324</u>
Total Taxes	<u>29,505,124</u>	<u>29,505,124</u>	<u>30,004,841</u>	<u>499,717</u>
Franchise Fees:				
Electric Franchise	1,575,000	1,575,000	1,536,852	(38,148)
Gas Franchise	217,400	217,400	203,779	(13,621)
Telephone Franchise	636,500	636,500	545,932	(90,568)
Cable Franchise	316,400	316,400	314,966	(1,434)
Street Rental Franchise	5,000	5,000	-	(5,000)
Total Franchise Fees	<u>2,750,300</u>	<u>2,750,300</u>	<u>2,601,529</u>	<u>(148,771)</u>
Licenses and Permits:				
Business Licenses and Permits	247,800	247,800	201,141	(46,659)
Building and Construction Permits	598,000	598,000	1,024,232	426,232
Total Licenses and Permits	<u>845,800</u>	<u>845,800</u>	<u>1,225,373</u>	<u>379,573</u>
Service Fees:				
General Government	500	500	152	(348)
Public Safety	785,200	785,200	975,871	190,671
Urban Development	3,000	3,000	2,950	(50)
Streets and Sanitation	400,600	400,600	390,710	(9,890)
Recreation	74,900	74,900	83,753	8,853
Interfund	348,900	348,900	348,910	10
Total Service Fees	<u>1,613,100</u>	<u>1,613,100</u>	<u>1,802,346</u>	<u>189,246</u>
Fines and Forfeitures	675,000	675,000	426,144	(248,856)
Earnings on Investments	70,000	70,000	168,959	98,959
Rental Charges	175,000	175,000	77,330	(97,670)
Recycling Proceeds	10,000	10,000	3,258	(6,742)
Other	<u>55,000</u>	<u>55,000</u>	<u>301,732</u>	<u>246,732</u>
Total Revenues	<u>\$ 35,699,324</u>	<u>\$ 35,699,324</u>	<u>\$ 36,611,512</u>	<u>\$ 912,188</u>

See accompanying notes to basic financial statements

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended September 30, 2017

	Budget		Actual	Variance
	Original	Final	GAAP	with Final
			Basis	Budget
				Positive
				(Negative)
EXPENDITURES				
General Government:				
City Secretary:				
Salaries and Fringe Benefits	\$ 95,959	\$ 99,001	\$ 94,845	\$ 4,156
Supplies	20,700	20,700	10,898	9,802
Contractual Services	84,500	84,500	24,887	59,613
Total City Secretary	201,159	204,201	130,630	73,571
City Manager's Office:				
Salaries and Fringe Benefits	839,624	871,835	811,511	60,324
Supplies	28,550	29,790	25,838	3,952
Maintenance and Materials	45,726	46,426	46,899	(473)
Contractual Services	112,050	110,110	136,790	(26,680)
Capital Replacement	18,221	18,221	18,221	-
Total City Manager's Office	1,044,171	1,076,382	1,039,259	37,123
Financial and Strategic Services:				
Salaries and Fringe Benefits	1,166,560	1,155,141	977,210	177,931
Supplies	44,410	44,410	37,356	7,054
Maintenance and Materials	32,193	32,193	50,930	(18,737)
Contractual Services	380,446	380,446	517,668	(137,222)
Capital Replacement	46,760	99,760	99,760	-
Total Financial and Strategic Services	1,670,369	1,711,950	1,682,924	29,026
General Services:				
Salaries and Fringe Benefits	416,219	435,420	437,102	(1,682)
Supplies	26,200	26,200	22,515	3,685
Maintenance and Materials	244,350	244,350	158,295	86,055
Contractual Services	96,746	96,746	83,095	13,651
Capital Replacement	28,620	28,620	28,620	-
Capital Outlay	-	-	58,708	(58,708)
Total General Services	812,135	831,336	788,335	43,001
Municipal Court:				
Salaries and Fringe Benefits	473,578	512,880	476,262	36,618
Supplies	12,600	12,600	15,480	(2,880)
Maintenance and Materials	37,000	37,000	34,941	2,059
Contractual Services	65,626	95,626	78,876	16,750
Capital Replacement	25,622	25,622	25,622	-
Total Municipal Court	614,426	683,728	631,181	52,547
Human Resources:				
MC Capital Outlay	500	500	-	500
Salaries and Fringe Benefits	387,701	438,249	421,891	16,358
Supplies	15,300	15,300	6,585	8,715
Maintenance and Materials	300	300	270	30
Contractual Services	197,640	197,640	184,272	13,368
Capital Replacement	12,648	12,648	12,648	-
Total Human Resources	614,089	664,637	625,666	38,971

See accompanying notes to basic financial statements

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended September 30, 2017

	Budget		Actual GAAP	Variance With Final Budget Positive (Negative)
	Original	Final	Basis	
EXPENDITURES (CONTINUED)				
Information Technology:				
Salaries and Fringe Benefits	\$ 961,286	\$ 1,010,806	\$ 1,022,119	\$ (11,313)
Supplies	58,400	58,400	49,357	9,043
Maintenance and Materials	712,629	712,629	534,434	178,195
Contractual Services	156,400	156,400	92,412	63,988
Capital Replacement	20,550	20,550	20,550	-
Capital Outlay	-	-	77,743	(77,743)
Total Information Technology	1,909,265	1,958,785	1,796,615	162,170
Combined Services:				
Salaries and Fringe Benefits	1,066,402	225,057	49,975	175,082
Supplies	62,000	62,000	24,563	37,437
Contractual Services	1,283,886	953,886	792,059	161,827
Total Combined Services	2,412,288	1,240,943	866,597	374,346
City Council Special Projects:				
Salaries and Fringe Benefits	28,894	28,894	28,968	(74)
Supplies	31,500	31,500	20,601	10,899
Contractual Services	247,530	247,530	240,359	7,171
Capital Replacement	2,895	2,895	2,895	-
Total City Council Special Projects	310,819	310,819	292,823	17,996
Total General Government	9,588,721	8,682,781	7,854,030	828,751
Public Safety:				
Police:				
Salaries and Fringe Benefits	6,964,080	6,726,646	6,695,298	31,348
Supplies	309,286	284,886	277,767	7,119
Maintenance and Materials	277,902	267,902	226,301	41,601
Contractual Services	497,322	970,784	599,627	371,157
Capital Replacement	592,414	592,414	592,414	-
Capital Outlay	-	-	19,175	(19,175)
Total Police	8,641,004	8,842,632	8,410,582	432,050
Emergency Communications:				
Maintenance and Materials	-	-	33,166	(33,166)
Contractual Services	1,410,505	1,410,505	1,307,501	103,004
Total Emergency Communications	1,410,505	1,410,505	1,340,667	69,838
Fire:				
Salaries and Fringe Benefits	5,764,700	5,952,133	5,979,643	(27,510)
Supplies	279,600	279,600	254,337	25,263
Maintenance and Materials	309,621	309,621	277,019	32,602
Contractual Services	329,020	329,020	295,478	33,542
Capital Replacement	364,534	364,534	364,534	-
Capital Outlay	-	-	5,391	(5,391)
Total Fire	7,047,475	7,234,908	7,176,402	58,506
Total Public Safety	17,098,984	17,488,045	16,927,651	560,394

See accompanying notes to basic financial statements

General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year Ended September 30, 2017

	Budget		Actual GAAP	Variance With
	Original	Final	Basis	Final Budget Positive (Negative)
EXPENDITURES (CONTINUED)				
Development Services:				
Development Services:				
Salaries and Fringe Benefits	\$ 987,745	\$ 1,055,594	\$ 942,226	\$ 113,368
Supplies	63,100	63,100	27,330	35,770
Maintenance and Materials	10,200	14,200	12,063	2,137
Contractual Services	281,489	281,489	132,745	148,744
Capital Replacement	44,233	44,233	44,233	-
Capital Outlay	-	-	370	(370)
Total Development Services	1,386,767	1,458,616	1,158,967	299,649
Streets:				
Streets:				
Salaries and Fringe Benefits	373,681	436,087	382,488	53,599
Supplies	35,050	35,050	38,869	(3,819)
Maintenance and Materials	781,150	751,150	555,833	195,317
Contractual Services	494,519	824,519	758,639	65,880
Capital Replacement	63,727	63,727	63,727	-
Capital Outlay	-	-	143,028	(143,028)
Total Streets	1,748,127	2,110,533	1,942,584	167,949
Parks and Recreation:				
Parks:				
Salaries and Fringe Benefits	1,644,724	1,678,682	1,443,894	234,788
Supplies	215,884	215,884	217,499	(1,615)
Maintenance and Materials	816,950	816,950	699,685	117,265
Contractual Services	981,715	981,715	841,333	140,382
Capital Replacement	70,317	70,317	69,845	472
Capital Outlay	-	14,781	34,813	(20,032)
Total Parks	3,729,590	3,778,329	3,307,069	471,260
Recreation:				
Salaries and Fringe Benefits	849,316	883,201	842,771	40,430
Supplies	182,258	157,258	144,157	13,101
Maintenance and Materials	240,310	243,310	269,264	(25,954)
Contractual Services	398,447	420,447	400,993	19,454
Capital Replacement	56,721	56,721	56,721	-
Total Recreation	1,727,052	1,760,937	1,713,906	47,031
Total Parks and Recreation	5,456,642	5,539,266	5,020,975	518,291
Total Expenditures	35,279,241	35,279,241	32,904,207	2,375,034
Excess (deficiency) of revenues over expenditures	420,083	420,083	3,707,305	3,287,222
OTHER FINANCING SOURCES/(USES):				
Transfers Out	(2,145,676)	(3,442,676)	(3,442,676)	-
Proceeds on Asset Sales	5,000	3,217,000	3,212,610	(4,390)
Total Other Financing Sources/(Uses)	(2,140,676)	(225,676)	(230,066)	(4,390)
Net Change in Fund Balance	(1,720,593)	194,407	3,477,239	3,282,832
Fund Balances at Beginning of Year	12,890,799	12,890,799	12,890,799	-
Fund Balances at End of Year	\$ 11,170,206	\$ 13,085,206	\$ 16,368,038	\$ 3,282,832

See accompanying notes to basic financial statements

Hotel Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended September 30, 2017

	2017			Variance With Final Budget Positive (Negative)
	Budget		Actual GAAP	
	Original	Final	Basis	
REVENUES:				
Hotel/Motel Occupancy Taxes	\$ 6,000,000	\$ 6,000,000	\$ 5,954,704	\$ (45,296)
Proceeds from Special Events	2,691,200	2,691,200	2,617,265	(73,935)
Earnings on Investments	17,000	17,000	32,811	15,811
Rental Charges	699,240	699,240	627,371	(71,869)
Other	90,000	90,000	75,259	(14,741)
Total Revenues	9,497,440	9,497,440	9,307,410	(190,030)
EXPENDITURES:				
Conference Centre	1,449,405	1,463,705	1,211,294	252,411
Marketing	1,091,774	1,096,074	964,987	131,087
Special Events	4,155,275	4,261,575	4,491,070	(229,495)
Performing Arts	847,003	842,303	821,617	20,686
General Hotel Operations	262,116	241,916	106,168	135,748
Total Expenditures	7,805,573	7,905,573	7,595,136	310,437
Excess/(Deficiency) of Revenues over Expenditures	1,691,867	1,591,867	1,712,274	120,407
OTHER FINANCING SOURCES/(USES):				
Transfer to Debt Service Fund	(1,259,500)	(1,259,500)	(1,259,500)	-
Net Change in Fund Balance	432,367	332,367	452,774	120,407
Fund Balances at Beginning of Year	3,386,414	3,386,414	3,386,414	-
Fund Balances at End of Year	\$ 3,818,781	\$ 3,718,781	\$ 3,839,188	\$ 120,407

**Proprietary Funds
Statement of Net Position
September 30, 2017**

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Airport	Utility	Stormwater	Total	Internal Service
ASSETS:					
Current Assets:					
Cash and Investments	\$ 5,642,715	\$ 9,825,377	\$ 8,397,628	\$ 23,865,720	\$ 5,415,179
Interest Receivable	9,448	9,943	6,708	26,099	8,758
Accounts Receivable, Net	165,028	1,983,808	310,578	2,459,414	-
Prepaid Items	63,139	-	-	63,139	-
Total Current Assets	5,880,330	11,819,128	8,714,914	26,414,372	5,423,937
Non-Current Assets:					
Capital Assets:					
Land	15,633,373	1,312,064	-	16,945,437	-
Construction in Progress	75,164	359,289	1,216,102	1,650,555	1,374,182
Buildings	2,600,302	8,069,661	-	10,669,963	-
Improvements other than Buildings	56,201,791	46,542,890	203,647	102,948,328	-
Machinery and Equipment	1,566,826	2,342,969	-	3,909,795	14,857,362
Accumulated Depreciation	(27,047,926)	(28,503,694)	(15,318)	(55,566,938)	(10,079,064)
Total Capital Assets, Net of Accumulated Depreciation	49,029,530	30,123,179	1,404,431	80,557,140	6,152,480
Investment in Joint Venture	-	6,644,785	-	6,644,785	-
Total Assets	54,909,860	48,587,092	10,119,345	113,616,297	11,576,417
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred Charges on Refundings	14,428	421,408	-	435,836	-
Deferred Outflows on Pensions-Contributions	-	97,074	-	97,074	-
Deferred Outflows on Pensions-Difference in Earnings	-	282,941	-	282,941	-
Deferred Outflows on Pensions-Assumption Changes	-	13,723	-	13,723	-
Total Deferred Outflows of Resources	14,428	815,146	-	829,574	-
LIABILITIES:					
Current Liabilities:					
Accounts Payable and Accrued Liabilities	247,802	410,265	87,606	745,673	210,916
Accrued Interest Payable	15,521	60,422	33,315	109,258	-
Current Compensated Absences Payable	-	1,058	-	1,058	-
Current Maturities of Long-Term Debt	532,500	600,852	280,000	1,413,352	-
Customer Deposits	497,860	978,133	-	1,475,993	-
Total Current Liabilities	1,293,683	2,050,730	400,921	3,745,334	210,916
Non-Current Liabilities:					
Long-Term Debt, Net of Current Portion	3,412,484	13,462,010	6,190,423	23,064,917	-
Total Liabilities	4,706,167	15,512,740	6,591,344	26,810,251	210,916
DEFERRED INFLOWS OF RESOURCES:					
Deferred Inflows on Pensions	-	53,007	-	53,007	-
NET POSITION:					
Net Investment in Capital Assets	45,103,027	21,172,371	(911,736)	65,363,662	6,152,480
Unrestricted	5,115,094	12,664,120	4,439,737	22,218,951	5,213,021
Total Net Position	\$ 50,218,121	\$ 33,836,491	\$ 3,528,001	\$ 87,582,613	\$ 11,365,501

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

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Airport	Utility	Stormwater	Total	Internal Service
OPERATING REVENUES:					
Water	\$ -	\$ 6,261,005	\$ -	\$ 6,261,005	\$ -
Sewer	-	4,595,090	-	4,595,090	-
Drainage	-	-	2,034,101	2,034,101	-
Penalties	-	73,283	-	73,283	-
Water and Sewer Taps and Other Fees	-	53,758	383	54,141	-
Fuel Flowage Fees	924,328	-	-	924,328	-
Customs Agent Fees	131,689	-	-	131,689	-
Rental Charges	4,369,905	-	-	4,369,905	-
Other Income	98,014	4,680	-	102,694	-
Department Contributions	-	-	-	-	1,612,171
Total Operating Revenues	5,523,936	10,987,816	2,034,484	18,546,236	1,612,171
OPERATING EXPENSES:					
Salaries and Fringe Benefits	353,000	271,282	115,162	739,444	-
Supplies	41,859	126,574	4,449	172,882	408,664
Maintenance and Materials	2,955,653	371,325	123,753	3,450,731	11,424
Contractual Services	679,118	1,260,201	913,467	2,852,786	91,588
Water Purchases	-	3,469,557	-	3,469,557	-
Wastewater Purchases	-	2,627,932	-	2,627,932	-
Total Operating Expenses (Excluding Depreciation)	4,029,630	8,126,871	1,156,831	13,313,332	511,676
Depreciation	2,359,167	1,380,463	8,964	3,748,594	975,881
Total Operating Expenses	6,388,797	9,507,334	1,165,795	17,061,926	1,487,557
OPERATING INCOME/(LOSS)	(864,861)	1,480,482	868,689	1,484,310	124,614
NON-OPERATING REVENUES/(EXPENSES):					
Investment Income/(Expense)	37,813	82,848	64,385	185,046	33,872
Sale of Assets	27,094	17,124	-	44,218	(8,535)
Gain/(Loss) on Joint Venture	-	(82,896)	-	(82,896)	-
Interest Expense and Fiscal Charges	(120,330)	(491,171)	(242,338)	(853,839)	-
Total Non-Operating Revenues/(Expenses)	(55,423)	(474,095)	(177,953)	(707,471)	25,337
NET INCOME/(LOSS) BEFORE TRANSFERS AND CAPITAL GRANTS AND CONTRIBUTIONS	(920,284)	1,006,387	690,736	776,839	149,951
Capital Grants and Contributions	-	85,362	62,796	148,158	-
Transfers Out	-	(800,000)	-	(800,000)	-
CHANGE IN NET POSITION	(920,284)	291,749	753,532	124,997	149,951
Net Position at Beginning of Year	51,138,405	33,544,742	2,774,469	87,457,616	11,215,550
Net Position at End of Year	\$ 50,218,121	\$ 33,836,491	\$ 3,528,001	\$ 87,582,613	\$ 11,365,501

Town of Addison, Texas
Basic Financial Statements

Proprietary Funds
Statement of Cash Flows
Year Ended September 30, 2017

	Business-Type Activities - Enterprise Funds				Governmental Activities
	<u>Airport</u>	<u>Utility</u>	<u>Stormwater</u>	<u>Total</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received from Customers	\$ 5,748,647	\$ 11,055,285	\$ 2,010,255	\$ 18,814,187	\$ 1,612,171
Payments to Suppliers	(3,824,398)	(8,071,910)	(1,780,044)	(13,676,352)	(327,581)
Payments to Employees for Services	(353,000)	(1,526,969)	(115,162)	(1,995,131)	-
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>1,571,249</u>	<u>1,456,406</u>	<u>115,049</u>	<u>3,142,704</u>	<u>1,284,590</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers to Other Funds	-	(800,000)	-	(800,000)	-
<i>Net Cash Provided/(Used) by Noncapital and Related Financing Activities</i>	<u>-</u>	<u>(800,000)</u>	<u>-</u>	<u>(800,000)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and Construction of Capital Assets	(278,663)	(277,025)	(500,756)	(1,056,444)	(2,173,558)
Principal Paid on Long-Term Debt	(517,292)	(576,669)	(275,000)	(1,368,961)	-
Interest and Fiscal Charges Paid on Long-Term Debt	(127,515)	(576,951)	(274,161)	(978,627)	-
Proceeds from Sale of Capital Assets	27,094	42,090	-	69,184	74,956
<i>Net Cash Provided/(Used) by Capital and Related Financing Activities</i>	<u>(896,376)</u>	<u>(1,388,555)</u>	<u>(1,049,917)</u>	<u>(3,334,848)</u>	<u>(2,098,602)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on Cash and Investments	33,038	83,803	67,242	184,083	31,303
<i>Net Cash Provided/(Used) by Investing Activities</i>	<u>33,038</u>	<u>83,803</u>	<u>67,242</u>	<u>184,083</u>	<u>31,303</u>
<i>Net Increase/(Decrease) in Cash and Cash Equivalents</i>	707,911	(648,346)	(867,626)	(808,061)	(782,709)
Cash and Cash Equivalents, October 1	4,934,804	10,473,723	9,265,254	24,673,781	6,197,888
Cash and Cash Equivalents, September 30	<u>\$ 5,642,715</u>	<u>\$ 9,825,377</u>	<u>\$ 8,397,628</u>	<u>\$ 23,865,720</u>	<u>\$ 5,415,179</u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:					
Operating Income/(Loss)	\$ (864,861)	\$ 1,480,482	\$ 868,689	\$ 1,484,310	\$ 124,614
Adjustments to Reconcile Income/(Loss) from Operations to Net Cash Provided/(Used) by Operating Activities:					
Depreciation	2,359,167	1,380,463	8,964	3,748,594	975,881
Change in Assets and Liabilities:					
(Increase)/Decrease in Accounts Receivables	(74,581)	152,327	(24,229)	53,517	-
(Increase)/Decrease in Prepaid Items	(63,139)	-	-	(63,139)	-
Increase/(Decrease) in Accounts Payable	(84,629)	(1,588,929)	(738,375)	(2,411,933)	184,095
Increase/(Decrease) in Customer Deposits	299,292	32,063	-	331,355	-
<i>Net Cash Provided/(Used) by Operating Activities</i>	<u>\$ 1,571,249</u>	<u>\$ 1,456,406</u>	<u>\$ 115,049</u>	<u>\$ 3,142,704</u>	<u>\$ 1,284,590</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Capital Grants and Contributions	\$ -	\$ 85,362	\$ 62,796	\$ 148,158	\$ -
Capital Assets in Accounts Payable	-	(43,810)	(114,963)	(158,773)	(11,490)
Gain/(Loss) of Joint Venture	-	(82,896)	-	(82,896)	-
<i>Net Non-Cash Items from Capital and Related Financing Activities</i>	<u>\$ -</u>	<u>\$ (41,344)</u>	<u>\$ (52,167)</u>	<u>\$ (93,511)</u>	<u>\$ (11,490)</u>

See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Town of Addison, Texas (Town), relating to the funds included in the accompanying financial statements, conform to the generally accepted accounting principles applicable to state and local governments. The following represent the more significant accounting and reporting policies and practices used by the Town.

A. Reporting Entity

The Town is a municipal corporation incorporated on June 15, 1953, under the Constitution of the State of Texas (Home Rule Amendment). The Town's charter was last amended in November 2010. The Town operates as a Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the Town and its inhabitants.

The Town is a financial reporting entity as defined by GASB Statement No. 14, "*The Financial Reporting Entity*," as amended by GASB Statement No. 61 "*The Financial Reporting Entity: Omnibus: an amendment of GASB Standards No. 14 and No. 34*." As required by generally accepted accounting principles (GAAP), the Town's financial statements include all required activities relating to the Town and its operations. In accordance with the standards, the Town does not have component units requiring inclusion.

B. Basic Financial Statements

The basic financial statements include both government-wide financial statements (based on the Town as a whole) and fund financial statements. Both sets of financial statements classify activities as either governmental activities, which are supported by taxes and intergovernmental revenues, or business-type activities, which rely on fees and charges for support.

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

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. "Measurement focus" refers to what is being measured, and "basis of accounting" refers to the timing of revenue and expenditure recognition in financial statements. The government-wide financial statements and the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied.

The governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town considers all revenues available if they are collected within thirty (30) days after year-end. Expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which are recorded when due, and compensated absences, which are recorded when payable from currently available financial resources.

Ad Valorem (property), sales, and hotel taxes, as well as franchise fees, recorded in the General Fund and Ad Valorem tax revenues recorded in the Economic Development Fund, General Obligation Debt Service Fund and Capital Project Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services (except ambulance services), fines and forfeitures (except court warrants), and miscellaneous revenues (except earnings on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Ambulance services, court warrants and investment earnings are recorded as earned since they are measurable and available.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's airport and utility functions and various other functions of the Town, and charges of the internal service funds to the Airport and Utility funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

The Town reports the following major governmental funds:

General Fund – The General Fund is used to account for all financial resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. Revenues which are not allocated by law or contractual agreement to other funds are accounted for in this fund.

Hotel Fund – The Hotel Fund is used to account for tax revenues received from local hotels. Expenditures must fall within the guidelines set forth in the Texas Hotel Occupancy Tax Act (Article 1269: Vernon's Texas Civil Statutes).

General Obligation Debt Service Fund – The General Obligation Debt Service Fund accounts for the accumulation of resources to be used for the payment of principal and interest on the general obligation bonded debt of the Town.

Hotel Debt Service Fund – The Hotel Debt Service Fund accounts for the accumulation of resources to be used for the payment of principal and interest on the hotel fund supported portion of the 2011 GO Refunding Bonds.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources related to the acquisition, construction, or improvements of major capital assets.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the Town reports the following non-major governmental funds:

Municipal Court Fund – The Municipal Court Fund accounts for the Town's court building security and technology fees that are generated from court citation fines. According to state law, the revenue generated from these fees may only be spent on the municipal court function.

Public Safety Fund – The Public Safety Fund accounts for awards of monies or property by the courts relating to cases that involve the Addison Police Department.

Advanced Funding Grant Fund – The Advanced Funding Grant Fund accounts for grant monies that are received prior to the related expenditure, and therefore the fund may carry a balance from year to year if the Town does not expend the monies within the fiscal year.

Economic Development Fund – The Economic Development Fund accumulates resources to support efforts that attract commercial enterprises to Addison and encourage existing businesses to remain in Addison.

Reimbursement Grant Fund – The Reimbursement Grant Fund accounts for expenditures for which the Town expects to be reimbursed. For any reimbursements not received prior to the fiscal year end, the Town will record a receivable. Amounts not received within 30 days of the fiscal year end are reported as deferred revenue.

PEG Fees Fund - The PEG Fees Fund was created to collect state restricted public, educational, and government access channels, or PEG, fees and account for their use.

The Town reports the following major proprietary funds:

Airport Fund – The Airport Fund accounts for all revenue generated by the Town's general aviation airport. The Town is required to spend this revenue on airport functions. The airport's operating, maintenance, and capital expenses are supported solely by airport income.

Utility Fund – The Utility Fund provides water and sewer services to the residents and businesses of the Town. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing.

Stormwater Fund - The Town's Stormwater Fund accounts for maintenance and improvements to Town stormwater infrastructure. It is financed and operated in a manner similar to private business enterprises, where costs of providing the services to the public are financed primarily through user charges. All operating, maintenance, and capital expenses are supported solely by the approved user fees.

Additionally, the Town reports the following internal service funds:

Capital Replacement Fund – The Capital Replacement Fund is used to accumulate sufficient resources to replace existing capital equipment that have reached or exceeded their useful lives. Resources are acquired through charges to operating departments in the funds. The charges are calculated using a straight-line amortization of each piece of equipment based upon the item's expected life. The funds are used to finance replacement equipment when needed.

Information Technology Replacement Fund – The Information Technology Replacement Fund is used to accumulate sufficient resources to replace existing information technology systems. Resources are acquired through charges to operating departments in the funds. The charges are calculated using a straight-line amortization of each component of a system based upon the component's expected life. The funds are used to finance replacement equipment when needed.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity

1) Cash and Investments

The Town'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. To maximize investment opportunities, all funds participate in a pooling of cash and investments.

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities; obligations of the State of Texas and related agencies; obligations of state, agencies, counties, cities and other political subdivisions of any state rated A or above by Standard & Poor's Corporation or Moody's Investors Service; certificates of deposit issued by state or national banks and savings banks domiciled in Texas; fully collateralized direct repurchase agreements; prime domestic banker's acceptances (BA's); commercial paper with a stated maturity of 180 days or less and a rating of not less than A-1+ or its equivalent; and state or local government investment pools.

Investments in debt securities and money market mutual funds for the Town are reported at fair value. 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. The Town considers quoted market price at September 30, 2017 to be the fair value of investments. Investments in nonnegotiable certificates of deposit are carried at cost. The government investment pools, TexPool and TexSTAR, operate in accordance with state laws and regulations. Investments in external pools are carried at either net asset value or amortized cost, as determined by each pool's individual investment valuation method and whether there is a readily determinable fair value of the pool as of the Town's fiscal year end. In instances where pools transact at amortized cost, such as TexPool, no readily determinable fair value is deemed available.

2) Receivables and Payables

All receivables for the Town are reported net of an allowance for uncollectibles. The allowances are based on historical collections data and evaluated periodically.

The Town's property tax lien is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the Town. Values are assessed at 100% of the estimated market value. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance.

3) Inventories and Prepaid Items

In accordance with the consumption method of accounting, both inventories and prepaid items are recorded as expenditures when consumed rather than when purchased.

Inventories are stated at cost. Cost is determined for inventories of supplies and fuel using the moving-average method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in the government-wide and fund financial statements. The prepaid items of the Town consist primarily of prepaid software maintenance agreements, the quarterly payment to support the operations of our joint venture North Texas Emergency Communications Center, Inc. (NTECC), and postage.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4) Capital Assets

Capital assets include land, buildings, equipment, and improvements. Improvements include upgrading facilities other than buildings such as streets or sewers and infrastructure, including pavement, storm sewers, and right-of-way contributed by developers. Capital expenditures are defined as purchases that meet specific guidelines as listed below:

- Expected useful life must be three years or more for equipment and ten years or more for improvements.
- Original unit cost of the equipment should be \$5,000 or greater and includes all costs enabling the item into operation, such as freight, installation, and accessories; capital improvements should be \$25,000 or greater.
- The item should not be consumed, unduly altered, or materially reduced in value immediately by use.

The Land and Improvements other than Buildings categories associated with governmental activities include amounts for infrastructure. Related accumulated depreciation of Improvements other than Buildings includes amounts associated with infrastructure. Subsequently, infrastructure is tracked and reported as a separate component of general capital assets associated with governmental activities.

The internal service funds may record assets that have an original cost of \$5,000 or less if assets are considered part of an overall system. Individual items may be retired and replaced as parts of the larger system.

Contributed assets are recorded at acquisition value as of the date donated. Depreciation of property, plant, and equipment by major classes is provided by the straight-line method based on the following estimated useful lives by major class of depreciable capital assets:

Buildings.....	50 years
Improvements other than Buildings.....	20-50 years
Equipment.....	3-50 years

Depreciation of current year additions and retirements is computed at one-half the straight-line rate.

5) Compensated Absences

Vacation, holiday, and sick pay costs are charged to operations when taken by the employees of the Town. In the event of termination, an employee is reimbursed for all accumulated vacation and holiday days not exceeding two years' accumulation. The amounts of such liabilities have been provided for in the government-wide financial statements. No reimbursements upon termination are made for accumulated sick leave; accordingly, no liability for unused sick leave has been provided. The liability is computed based on the reimbursable hours at the employees' rate of pay as of September 30, 2017. The Town's liability for compensated absences decreased \$217,903 for a total liability of \$800,753.

6) Grants and Contributions

Included in capital grants and contributions in the government-wide financial statements is developer donations of \$85,362 for Utilities and \$62,796 for Stormwater. Operating grants included \$51,063 of funding for general government initiatives, \$816 for public safety, and \$50,000 for Airport operations.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7) Deferred Outflows/Inflows of Resources

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

- Deferred 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.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension plan investments – This difference is deferred and amortized over a closed five year period.
- Changes in pension assumptions - These changes are deferred and recognized over the estimated average remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the measurement period.

In addition to liabilities, the statement of net 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 period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has two types of items that qualify for reporting in this category. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined as of the measurement period. In the governmental funds, unavailable resources are revenues that are earned and measurable but not yet available, and are reported as deferred inflows of resources. In the full accrual government-wide statements, the unavailable resources are recognized as revenue and not deferred.

8) Fund Equity

The Town reports governmental fund balances per GASB 54 definitions as follows:

Nonspendable – Amounts that are not in spendable form or are required to be maintained intact, such as inventory or prepaid amounts or that are legally or contractually required to remain intact.

Restricted – Amounts that can be spent only for specific purposes stipulated by external parties, such as grants, court technology fees, and court building security fees or that are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts whose use is constrained by specific limitations that the Town imposes itself, as determined through an ordinance passed by the Town Council. Once adopted, the limitation imposed by the ordinance remains in place until another ordinance removes or revises the limitation.

Assigned – Amounts intended to be used for specific purposes. Intent may be expressed by the governing body or by an official or body to which the governing body delegates the authority. The City Council has delegated the CFO or his/her designee as the official authorized to assign fund balance for a specific purpose as approved by the fund balance policy.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned – Amounts not contained in other classifications that can be used for any purpose

Governmental fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by Town management based on Council direction.

The Town will utilize funds for expenditures from the most restrictive fund balance first when more than one fund balance classification is available.

9) Minimum Fund Balance Policy

It is the desire of the Town to maintain adequate fund balances to maintain liquidity and in anticipation of economic downturns or natural disasters. The City Council has adopted a financial standard to maintain a General Fund minimum fund balance of 30 percent of budgeted expenditures, and a minimum fund balance of 25 percent of budgeted expenditures for all other operating funds.

10) Net Position

Net Position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budget Policy – The City Council follows these procedures in establishing the budget reflected in the financial statements:

- 1) Prior to August 1 each year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means to finance them.
- 2) Public hearings are conducted where all interested persons' comments concerning the budget are heard.
- 3) The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
- 4) The department level is the legal level of control enacted by the Town Charter. The Town has also adopted a budget amendment policy delineating responsibility and authority for the amendment process. Transfers between expenditure accounts in one department may occur with the approval of the Chief Financial Officer. Transfers between operating departments may occur with the approval of the City Manager and Chief Financial Officer provided a department's total budget is not changed by more than five percent. Transfers between funds or transfers between departments that change a department's total budget by more than five percent must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budgetary control is maintained at the individual expenditure account level by the review of all requisitions of estimated purchase amounts prior to the release of purchase orders to vendors.

- 5) Budgets for the General, Special Revenue, and Debt Service funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). However, the Reimbursement Grant Fund does not have an adopted budget due to the uncertainty of revenues and expenditures, so no comparison of budget to actual is presented in the financial statements. Budgets for the Capital Project funds are normally established pursuant to the terms of the related bond indentures, that is, project basis. Accordingly, no comparison of budget to actual is presented in the financial statements.

Budget Data – The budget amounts presented in the statements reflect original and amended budget amounts. The FY2017 budget was amended once, and the amendment was approved by City Council on September 28, 2017. The amendment recognized revenue from the sale of city property and allocated it to pay for a dome park and renovations and repairs to the Addison Athletic Club. Also included in the amendment was the reallocation of a pool of funds in each fund to the departments to fund merit pay increases.

Excess of Expenditures over Appropriations – For the year ended September 30, 2017, no expenditures in the General Fund departments exceeded appropriations.

Encumbrance accounting is employed in governmental funds, but all encumbrances are liquidated at year-end. No encumbrances roll forward to the next fiscal year or affect following year budgets.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The Town has six bank accounts: the Operating Account, Controlled Disbursement Account, Payroll Account, ACH/Wire Account, Benefits Account, and the Addison Airport Account. The Controlled Disbursements and Payroll accounts are zero-balance accounts. The ACH/Wire Account is used for all receipts and expenditures made by ACH or wire transfer. The Town uses the Operating Account as an operating pool available for all funds. Each fund type's portion of this pool is reported as "Cash and Investments." The other demand accounts are reported in the same manner. The Addison Airport account is a checking account used by the management companies at the Airport to cover operational expenses.

The investment policies of the Town are governed by state statutes and an Investment Policy Ordinance adopted by the City Council. Major provisions of the Town's investment policy include: responsibility for investments, authorized investments, bank and security dealer selection and qualifying procedures, safekeeping and custodial procedures, statement of investment objectives, and investment reporting procedures.

Cash

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies or instrumentalities that have a market value of not less than the principal amount of the deposits. The Town's deposits were fully insured or collateralized as required by the state statutes at September 30, 2017. Included in Cash and Investments is \$6,525 of petty cash. At year-end, the carrying amount of the Town's deposits was a debit balance of \$18,387,596. The respective bank balance totaled \$21,353,128. In addition, collateral with a market value of \$23,807,810 and an unused letter of credit in the amount of \$10,212,603 were held by the pledging financial institution's account at the Federal Reserve Bank in the Town's name.

In order to maximize interest earnings, the Town utilizes a controlled disbursement account that allows the Town to deposit only as much money needed to fund checks presented for payment each day. The amount required is withdrawn from the operating pool.

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

External Investment Pools

The Town's pool investments as of September 30, 2017 were invested in TexPool and TexSTAR (Texas Short Term Asset Reserve program).

Federated Investors is the full service provider for the TexPool program. As the provider, the responsibilities include managing the assets, providing participant services, and arranging for all custody and other functions in support of the operations under a contract with the State Comptroller of Public Accounts. JPMorgan Fleming Asset Management, Inc. (JPMFAM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. JPMFAM provides investment management, fund accounting, transfer agency and services. The assets are safe kept in a separate custodial account at the Federal Reserve Bank in the name of TexSTAR and FSAM provides administrative, marketing and participant services.

TexPool and TexSTAR are not registered with the Securities and Exchange Commission (SEC) as investment companies. TexPool and TexSTAR are investment pools that have been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

The government investment pool, TexPool, is carried at amortized cost. TexSTAR is carried at net asset value.

Investments

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

	Carrying Value	Average Maturity (Days)
Certificates of Deposit	\$ 10,056,272	576
Commercial Paper	9,957,229	117
Agency Securities	38,967,484	182
<i>Total Investment in Securities</i>	<u>58,980,985</u>	<u>292</u>
TexStar	10,337,183	28
TexPool	4,656,539	37
<i>Total Investment in Pools</i>	<u>14,993,722</u>	<u>33</u>
<i>Total Investments</i>	<u>\$ 73,974,707</u>	189

In accordance with GASB Statement No. 72, "Fair Value Measurement and Application," the Town records investments at fair value. However, for participating interest-earning investment contracts with maturities of one year or less at time of purchase, the Town reports these investments at amortized cost. The carrying value of the Town's investments at September 30, 2017 was \$73,974,707, of which \$14,993,722 had maturities of less than one year at time of purchase. Investments in debt securities are carried at fair value. Fair value for debt securities is determined using a multi-dimensional relational model using standard inputs including TRACE reported trades. Investments in nonnegotiable certificates of deposits are carried at cost.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Interest Rate Risk – In accordance with its investment policy, the Town manages its exposure to declines in fair market values by limiting the weighted average days to maturity of its investment portfolio to 18 months (540 days). This means investing operating funds primarily in short-term securities, money market mutual funds or similar investment pools.

Credit Risk – The reported investments meet the criteria specified in the Town's investment policy related to the specific types of instruments presented.

1. Debt obligations with a maturity not to exceed five years from the date of purchase issued by, guaranteed by, or for which the credit of any of the following Federal Agencies and Instrumentalities is pledged for payment: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). The Town's investments in bonds of U.S. Agencies were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's. Mortgage-backed securities may be held as collateral although principal-only and interest-only mortgage-backed securities as well as all types of collateralized mortgage obligations (CMO) and real estate mortgage investment conduits (REMICs) are expressly prohibited.
2. Time Certificates of Deposit with a maturity not to exceed three years from the date of purchase, insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, in depository institutions that have a main office or a branch in the state of Texas which have been approved by the Town in accordance with its Investment Policy. In addition, separate CDs issued by depositories wherever located, bundled together into a single investment with the full amount of principal and interest of each CD federally insured may be purchased through a selected depository institution with its main office or branch office in Texas. This depository shall act as the custodian for the various certificates on behalf of the Town.
3. Prime commercial paper with an original maturity of one hundred eighty days or less which at the time of purchase, is rated at least A-1 by Standard and Poor's, P-1 by Moodys or F1 by Fitch.
 - At the time of the purchase, the commercial paper must be rated by at least two of the above stated ratings agencies at the above stated minimum credit rating.
 - If more than two of the above rated agencies rates an issuer, all the rating agencies must rate the issuer in accordance with the above stated minimum credit criteria.
 - If the commercial paper issuer has senior debt* outstanding, the senior debt must be rated by each service that publishes a rating of the issue at least: A-1 by Moodys, A+ by Standard and Poor's, and A+ by Fitch. (*Senior Debt is defined as the most senior secured or unsecured debt of an issuer with an original maturity exceeding one year).
 - If the commercial paper issuer is given a "plus (+) rating," the maximum maturity of 270 days or less will be allowed.
4. State and Local Investment Pools organized under the Interlocal Cooperation Act that meet the requirements of Chapter 2256 Texas Government Code and have been specifically approved by the CFO and authorized by the City Council. TexPool and TexSTAR are both currently rated AAA by Standard and Poor's.

Concentration of Credit Risk – It is the Town's policy to avoid a concentration of assets in a specific maturity, a specific issue, or a specific class of securities. The applicable limits on the Town's current investments are Instrumentality Securities (70%) of which the Town's portfolio is currently at 53%, Certificates of Deposit (50%) of which the Town's portfolio is currently at 14%, Commercial Paper (30%) of which the Town's portfolio is currently at 13%, and Local Government Investment Pools (40%) of which the Town's portfolio is currently at 20%. At September 30, 2017, 5% of the Town's total investments were in Toyota Motor Corporation Commercial Paper (7%), valued at \$4,976,955.

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

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 hierarchy in which the fair value measurements fall at September 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Investments by fair value level				
Commercial Paper	\$ 9,957,229	\$ -	\$ 9,957,229	\$ -
U.S. Agency Securities	38,967,484	-	38,967,484	-
<i>Total Investment by fair value level</i>	<u>48,924,713</u>	<u>\$ -</u>	<u>\$ 48,924,713</u>	<u>\$ -</u>
Investments measured at net asset value - TexSTAR	10,337,183			
Investments measured at amortized cost - TexPool	4,656,539			
Non-negotiable certificates of deposit	<u>10,056,272</u>			
<i>Total Investments</i>	<u>\$ 73,974,707</u>			

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, 2017, no investments are held by the Town meeting the Level 3 hierarchy classification.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Investment in State Investment Pools

During the year, the Town invested in multiple public fund investment pools, including TexSTAR and TexPool. The fair value of the position of TexSTAR is measured at net asset value, and the fair value of the position of TexPool is measured at amortized cost. 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.

B. Ad Valorem (Property) Taxes

Property taxes attach as an enforceable lien on property as of January 1. The Town's property tax is levied on the assessed value listed as of the prior January 1 for all real and business personal property located in the Town. Assessed values are established by Dallas Central Appraisal District at 100% of the estimated market value and certified by the Appraisal Review Board. The assessed taxable value for the roll of January 1, 2016, upon which the fiscal year 2017 levy is based, was \$4,302,982,597.

The Town is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The tax rate for the year ended September 30, 2017 was \$.5605 per \$100, of which \$.3812 was allocated for general government and \$.1793 was allocated for the payment of principal and interest on general obligation and certificates of obligation long-term debt.

Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. Current tax collections for the year ended September 30, 2017, were 97.03% of the original tax levy. In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the Town may at its own expense require annual reviews of appraised values. The Town may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this arrangement, the Town continues to set tax rates on Town property.

However, if the effective tax rate, excluding tax rates for retirement of bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the Town 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. This legislation also provides that, if approved by the qualified voters in the Town, both the appraisal and collection functions may be placed with the appraisal district.

In the governmental funds financial statements, taxes are recognized as revenue beginning on the date of levy when they become available. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay current liabilities. Taxes not expected to be collected within thirty (30) days of the fiscal year ending are recorded as deferred inflows of resources and recognized as they become available. Taxes collected prior to the levy date to which they apply are recorded as unearned revenues and recognized as revenue of the period to which they apply.

An allowance for uncollectible taxes is provided based on an analysis of historical trends. The allowance for uncollectible taxes at September 30, 2017, was \$99,290.

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Receivables

As of September 30, 2017, receivables for the Town's individual major governmental funds, non-major governmental funds, and internal service funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	General	Hotel	Debt Service	Hotel Debt Service	Capital Projects	Non-Major Funds	Internal Service Funds	Total
Taxes:								
Ad Valorem	\$ 307,552	\$ -	\$ 178,495	\$ -	\$ 3,550	\$ 18,623	\$ -	\$ 508,220
Non-Property	2,435,472	566,956	-	-	-	-	-	3,002,428
Franchise Fees	299,391	-	-	-	-	-	-	299,391
Service Fees	937,172	-	-	-	-	-	-	937,172
Ambulance	806,739	-	-	-	-	-	-	806,739
Interest	35,870	6,981	558	8,309	48,608	12,131	8,758	121,215
Other	25,738	54,998	-	-	-	-	-	80,736
Gross Receivables	\$ 4,847,934	\$ 628,935	\$ 179,053	\$ 8,309	\$ 52,158	\$ 30,754	\$ 8,758	\$ 5,755,901
Less: Allowance for Uncollectibles	809,869	-	36,411	-	380	2,690	-	849,350
Net Receivables	<u>\$ 4,038,065</u>	<u>\$ 628,935</u>	<u>\$ 142,642</u>	<u>\$ 8,309</u>	<u>\$ 51,778</u>	<u>\$ 28,064</u>	<u>\$ 8,758</u>	<u>\$ 4,906,551</u>

The above allowance for uncollectible accounts represents reserves for ambulance (\$409,506), court warrants (\$340,554), and property taxes (\$99,290).

In the proprietary funds at September 30, 2017 the Airport fund has a \$50,000 operating grant receivable and \$115,028 rent receivable with no associated allowance accounts. The Utility fund has \$1,994,909 in water and sewer sales receivable, net of an allowance of \$11,101. The stormwater fund has stormwater fees receivable of \$313,264 net of an allowance of \$2,686.

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, not Depreciable:					
Land	\$ 66,312,844	\$ -	\$ (63,560)	\$ 651	\$ 66,249,935
Intangible Assets	168,177	-	-	209,202	377,379
Construction in Progress	19,258,386	7,774,524	(339,261)	(2,937,666)	23,755,983
<i>Total Capital Assets, not Depreciable</i>	<u>85,739,407</u>	<u>7,774,524</u>	<u>(402,821)</u>	<u>(2,727,813)</u>	<u>90,383,297</u>
Capital Assets, Depreciable:					
Buildings	22,026,374	58,400	-	-	22,084,774
Improvements other than Buildings	171,504,087	-	-	2,430,643	173,934,730
Machinery and Equipment	19,681,240	2,510,626	(3,007,450)	297,170	19,481,586
<i>Total Capital Assets, Depreciable</i>	<u>213,211,701</u>	<u>2,569,026</u>	<u>(3,007,450)</u>	<u>2,727,813</u>	<u>215,501,090</u>
Less Accumulated Depreciation for:					
Buildings	(12,607,466)	(574,928)	-	-	(13,182,394)
Improvements other than Buildings	(99,499,259)	(5,905,597)	-	-	(105,404,856)
Machinery and Equipment	(14,609,475)	(1,237,827)	2,917,365	-	(12,929,937)
<i>Total Accumulated Depreciation</i>	<u>(126,716,200)</u>	<u>(7,718,352)</u>	<u>2,917,365</u>	<u>-</u>	<u>(131,517,187)</u>
<i>Total Capital Assets, Depreciable, net</i>	<u>86,495,501</u>	<u>(5,149,326)</u>	<u>(90,085)</u>	<u>2,727,813</u>	<u>83,983,903</u>
<i>Governmental Activities Capital Assets, net</i>	<u>\$ 172,234,908</u>	<u>\$ 2,625,198</u>	<u>\$ (492,906)</u>	<u>\$ -</u>	<u>\$ 174,367,200</u>
Business-type Activities:					
Capital Assets, not Depreciable:					
Land	\$ 16,945,437	\$ -	\$ -	\$ -	\$ 16,945,437
Construction in Progress	953,742	696,813	-	-	1,650,555
<i>Total Capital Assets, not Depreciable</i>	<u>17,899,179</u>	<u>696,813</u>	<u>-</u>	<u>-</u>	<u>18,595,992</u>
Capital Assets, Depreciable:					
Buildings	10,669,963	-	-	-	10,669,963
Improvements other than Buildings	102,796,320	152,008	-	-	102,948,328
Machinery and Equipment	4,163,313	218,799	(472,317)	-	3,909,795
<i>Total Capital Assets, Depreciable</i>	<u>117,629,596</u>	<u>370,807</u>	<u>(472,317)</u>	<u>-</u>	<u>117,528,086</u>
Less Accumulated Depreciation for:					
Buildings	(2,448,125)	(213,406)	-	-	(2,661,531)
Improvements other than Buildings	(46,878,969)	(3,354,253)	-	-	(50,233,222)
Machinery and Equipment	(2,938,602)	(180,935)	447,352	-	(2,672,185)
<i>Total Accumulated Depreciation</i>	<u>(52,265,696)</u>	<u>(3,748,594)</u>	<u>447,352</u>	<u>-</u>	<u>(55,566,938)</u>
<i>Total Capital Assets, Depreciable, net</i>	<u>65,363,900</u>	<u>(3,377,787)</u>	<u>(24,965)</u>	<u>-</u>	<u>61,961,148</u>
<i>Business-type Activities Capital Assets, net</i>	<u>\$ 83,263,079</u>	<u>\$ (2,680,974)</u>	<u>\$ (24,965)</u>	<u>\$ -</u>	<u>\$ 80,557,140</u>

Town of Addison, Texas
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NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Depreciation expense was charged to departments of the Town as follows:

	Governmental Activities	Business-type Activities
General Government	\$ 317,702	\$ -
Public Safety	155,951	-
Development Services	1,222	-
Streets	4,852,501	-
Parks and Recreation	865,874	-
Visitor Services	549,222	-
IT Replacement	283,108	-
Capital Replacement	692,772	-
Airport Fund		2,359,167
Utility Fund		1,380,463
Stormwater Fund		8,964
	<u>\$ 7,718,352</u>	<u>\$ 3,748,594</u>

The following tabulation presents the estimated significant commitments under unfinished capital construction and equipment contracts that are fully funded as of September 30, 2017:

Project	Estimated Commitments	Less Expenditures to Date	Total Commitment Remaining
<u>Governmental Activities</u>			
Belt Line Road Underground Utilities	\$ 20,830,000	\$ 15,307,558	\$ 5,522,442
Pedestrian Connectivity Improvements	3,658,253	3,153,121	505,132
Vitruvian Public Infrastructure	10,021,107	5,036,136	4,984,971
Public Safety Radio Replacement and RMS	3,454,173	2,606,809	847,364
Midway Road Rehabilitation	3,000,000	1,184,298	1,815,702
	<u>\$ 40,963,533</u>	<u>\$ 27,287,922</u>	<u>\$ 13,675,611</u>
<u>Business-type Activities</u>			
Sherlock Basin Improvements	\$ 1,200,000	\$ -	\$ 1,200,000
Water Line Replacements	1,100,000	75,860	1,024,140
Surveyor Ground Storage Tank	2,315,000	151,415	2,163,585
	<u>\$ 4,615,000</u>	<u>\$ 227,275</u>	<u>\$ 4,387,725</u>

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Interlocal Sanitary Sewer Interceptor Agreement

The Town is party to an Interlocal agreement, which established a non-profit water supply corporation (North Dallas County Water Supply Corporation) for the purpose of constructing, maintaining, and operating a joint sanitary sewer interceptor with the City of Farmers Branch. The non-profit water supply corporation is governed by a six-member board composed of three appointees from each entity. The Town was obligated for construction costs of the project in proportion to its percentage of allocated flows for each specific portion of the project as set forth in the agreement. The Town is also obligated to pay 55% of all general overhead costs. Operating and maintenance costs since the project became operational shall be paid in accordance with respective percentages of allocated flows as set forth in the agreement.

The Town's net investment and its share of general overhead expenses are reported in the Town's Utility Fund (an enterprise fund). The Town's equity interest in the North Dallas County Water Supply Corporation of \$6,644,785, net of related debt, is included in Unrestricted Net Position. This joint venture provides audited financial statements bi-annually. The next audit report will be available for the year ended September 30, 2017. Complete financial statements for the North Dallas County Water Supply Corporation can be obtained from Charles Cox, Secretary/Treasurer, North Dallas County Water Supply Corporation, 13000 William Dodson Parkway, Farmers Branch, Texas.

F. Long-Term Debt

The long-term debt of the Town consisted of the following as of September 30, 2017:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Combination Tax and Revenue Certificates of Obligation Series of 2008		
A series of 6,900 bonds at \$5,000 each dated May 1, 2008. The bonds were issued for the purpose of constructing improvements to (i) water, sewer, drainage, parks and streets including sidewalks, street lighting, landscaping, extensions and relocations, and acquisition of land and rights-of-way; (ii) acquisition and construction of a water tower; (iii) acquisition of land for street and other municipal purposes (collectively with items (i) and (ii)); and (iv) payment of professional services of attorneys, financial advisors and other professionals in connection with the issuance of the certificates. The bonds originally matured serially through 2033 with interest rates ranging from 4% to 5%. The bonds were callable at par value plus accrued interest on or after February 15, 2018 in whole or in part in principal amounts of \$5,000. These bonds were partially refunded in May 2016 and mature serially through 2018. Bonds and interest are payable from a combination of Ad Valorem taxes and a limited pledge (not to exceed \$1,000) of surplus net revenues of the Town's Utility Fund.	\$ 1,004,148	\$ 310,852
Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General Obligation Refunding Bonds Series of 2011		
<p>A series of 1,778 bonds at \$5,000 each dated October 25, 2011. The bonds were issued to refund a portion of the Town's outstanding General Obligation Refunding Bonds, Series 2001, General Obligation Refund and Improvement Bonds, Series 2002 and Combination Tax and Revenue Certificates of Obligation, Series 2003; for interest savings, and costs of issuance associated with the sale of the bonds. The bonds mature serially through 2033 with interest rates ranging from 2.0% to 3.0%. The bonds are not callable. Bonds and interest are payable from a combination of Ad Valorem taxes and hotel occupancy taxes.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"</p>	\$ 700,000	\$ -
Combination Tax and Revenue Certificates of Obligation Series of 2012		
<p>A series of 2,967 bonds at \$5,000 each dated August 15, 2012. The bonds were issued for the purpose of (i) acquiring and installing radio and telecommunication equipment for Town public safety operations, (ii) designing, acquiring, improving, constructing, and renovating water, wastewater and street infrastructure improvements, including drainage infrastructure, within the Vitruvian Park area of the Town; and (iii) paying professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the certificates. The bonds mature serially through 2032 with interest rates ranging from 1.5% to 4%. The bonds are callable at par value plus accrued interest on or after February 15, 2022 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from a combination of Ad Valorem taxes and a limited pledge (not to exceed \$1,000) of surplus net revenues of the Town's Utility Fund.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"</p>	\$ 13,095,000	\$ -

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

	Governmental Activities	Business-type Activities
General Obligation Refunding and Improvement Bonds Series of 2012		
<p>A series of 4,518 bonds at \$5,000 each dated August 15, 2012. The bonds were issued to fund various public improvement projects up to \$19,830,000 to include construction, engineering, and other professional services; refund the Town's outstanding General Obligation Bonds, Series 2004, and General Obligation Refunding and Improvement Bonds, Series 2005; and pay the costs of issuance associated with the sale of the bonds. The bonds mature serially through 2032 with interest rates ranging from 2% to 5%. The bonds are callable at par plus accrued interest on or after February 15, 2022 in whole or in part in principal amounts of \$5,000. Bonds and interest are payable from Ad Valorem taxes.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"; AMBAC Insured</p>	\$ 17,720,000	\$ -
General Obligation Bonds, Tax-Exempt Series of 2013		
<p>A series of 933 bonds at \$5,000 each dated July 15, 2013. The bonds were issued to provide funds to (i) engineer, construct, improve, repair, develop, extend and expand streets, thoroughfares, bridges, interchanges, intersections, grade separations, sidewalks and other public ways of the Town, including related streetscape improvements, public utility improvements, storm drainage facilities and improvements, signalization and other traffic controls, street lighting and the acquisition of land therefore; (ii) acquire and improve land and interest in land to provide improvements, additions and access to the Addison Municipal Airport, and (iii) pay the costs of issuing the Tax-Exempt Bonds. The bonds mature serially through 2033 with interest rates ranging from 2% to 5%. The bonds are callable at par plus accrued interest on or after February 15, 2023 in whole or in part in principal amounts of \$5,000.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"</p>	\$ 4,030,000	\$ -
General Obligation Bonds Series 2013A (AMT)		
<p>A series of 375 bonds at \$5,000 each dated July 15, 2013. The bonds were issued to provide funds to: (i) acquire and improve of land and interests in land to provide improvements, additions and access to the Addison Municipal Airport, and (ii) pay the costs of issuing the AMT bonds. The bonds mature serially through 2018 with interest rates ranging from 2% to 2.25%. The bonds are not callable.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"</p>	\$ 1,605,000	\$ -

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

	Governmental Activities	Business-type Activities
General Obligation Bonds		
Taxable Series of 2013B		
<p>A series of 250 bonds at \$5,000 each dated July 15, 2013. The bonds, used together with other available Town funds, were issued to provide funds to: (i) acquire and improve land and interests in land to provide improvements, additions and access to the Addison Municipal Airport, and (ii) pay the costs of issuing the Taxable Bonds. The bonds mature serially through 2033 with interest rates ranging from 3.75% to 5%. The bonds are callable at par plus accrued interest on or after February 15, 2023 in whole or in part in principal amounts of \$5,000.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"</p>	\$ 1,080,000	\$ -
Combination Tax and Revenue Certificates of Obligation Series of 2013		
<p>A series of 2,037 bonds at \$5,000 each dated July 15, 2013. The Certificates were issued for (i) (a) designing, acquiring, improving, constructing and renovating facilities and infrastructure at the Addison Municipal Airport and the acquisition and improvement of land and interests in land to provide improvements, additions and access to the airport, (b) designing, acquiring, improving, constructing, and renovating City drainage and stormwater infrastructure and facilities ((a) and (b) together, the "Project") and (ii) paying professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The bonds mature serially through 2033 with interest rates ranging from 2% to 5%. The bonds are callable at par plus accrued interest on or after February 15, 2023 in whole or in part in principal amounts of \$5,000.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"</p>	\$ -	\$ 8,720,000
General Obligation Bonds, Tax-Exempt Series 2014		
<p>A series of 2,400 bonds at \$5,000 each dated February 15, 2014. The bonds were issued to provide funds for: (i) engineering, constructing, reconstructing, improving, repairing, developing, extending and expanding streets, thoroughfares, bridges, interchanges, intersections, grade separations, sidewalks and other public ways of the Town, including related streetscape improvements, public utility improvements, storm drainage facilities and improvements, signalization and other traffic controls, street lighting, and the acquisition of land therefor; relocating utilities currently located in or adjacent to the Belt Line Road right-of-way and acquiring, constructing, and developing Belt Line Road roadway and streetscape improvements and the acquisition of land therefor; and (iii) for the payment of the costs of issuing the Tax-Exempt Bonds. The bonds mature serially through 2032 with interest rates ranging from 3% to 3.625%. The bonds are callable at par plus accrued interest on or after February 15, 2024 in whole or in part in principal amounts of \$5,000.</p> <p>Ratings: Moody's "Aa1"; Standard & Poor's "AAA"</p>	\$ 11,255,000	\$ -

Town of Addison, Texas
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NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

	Governmental Activities	Business-type Activities
Certificates of Obligation Series 2014		
A series of 1,513 bonds at \$5,000 each dated February 15, 2014. The Certificates were issued for (i) designing, constructing, installing, acquiring and equipping additions, extensions and improvements to the Town's water and wastewater system, and the acquisition of land and interests in land for such projects, (the "Project") and (ii) paying professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The bonds mature serially through 2034 with interest rates ranging from 1% to 4%. The bonds are callable at par plus accrued interest on or after February 15, 2024 in whole or in part in principal amounts of \$5,000.	\$ -	\$ 6,910,000
Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		
General Obligation Refunding Bonds Series 2014 (AMT)		
A series of 429 bonds at \$5,000 each dated February 15, 2014. The bonds were issued to: (i) refund a portion of the Town's outstanding Combination Tax and Revenue Certificates of Obligation, Series 2004 for debt service savings, and (ii) to pay the costs of issuing the AMT Bonds. The bonds mature serially through 2020 with interest rates ranging from 1% to 2%. The bonds are not callable.	\$ -	\$ 1,110,000
Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		
General Obligation Refunding Bonds Series 2016		
A series of 4,712 bonds at \$5,000 each dated May 13, 2016. The bonds were issued to refund a portion of the Town's outstanding debt for debt service savings and to pay the costs associated with the issuance of the bonds. The bonds mature serially through 2033 with interest rates ranging from 3% to 5%. The bonds are callable at par plus accrued interest on or after February 15, 2026 in whole or in part in principal amounts of \$5,000.	\$ 7,990,000	\$ 5,570,000
Ratings: Moody's "Aa1"; Standard & Poor's "AAA"		
TOTAL LONG-TERM DEBT OUTSTANDING	<u>\$ 68,479,148</u>	<u>\$ 22,620,852</u>

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

Changes in Long-Term Liabilities

A summary of long-term liability activity for the year ended September 30, 2017 was as follows (in thousands of dollars):

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 58,360	\$ -	\$ (3,980)	\$ 54,380	\$ 3,205
Premium on General Obligation Bonds	6,854	-	(1,213)	5,641	-
Discount on General Obligation Bonds	(49)	-	3	(46)	-
Certificates of Obligation	15,738	-	(1,638)	14,100	1,704
Premium on Certificates of Obligation	-	-	-	-	-
Discount on Certificates of Obligation	(95)	-	5	(90)	-
Net Pension Liability	25,370	-	(18,570)	6,800	-
Compensated Absences	949	744	(955)	738	99
Net OPEB Obligation	486	388	(127)	747	-
Long-Term Liabilities – Governmental Activities	\$ 107,613	\$ 1,132	\$ (26,475)	\$ 82,270	\$ 5,008
Business-type Activities:					
General Obligation Refunding Bonds	\$ 7,030	\$ -	\$ (350)	\$ 6,680	\$ 360
(Payable from airport and utility system revenues)					
Premium on General Obligation Refunding Bonds	1,092	-	(109)	983	-
Combination Tax and Revenue Certificates of Obligation	2,600	-	(110)	2,490	110
(Payable from airport revenues)					
Premium on Combination Tax and Revenue C.O.	108	-	(12)	96	-
Combination Tax and Revenue Certificates of Obligation	7,797	-	(577)	7,220	601
(Payable from utility system revenues)					
Premium on Combination Tax and Revenue C.O.	30	-	(2)	28	-
Combination Tax and Revenue Certificates of Obligation	6,505	-	(275)	6,230	280
(Payable from storm water system revenues)					
Premium on Combination Tax and Revenue C.O.	271	-	(31)	240	-
Note Payable	303	-	(58)	245	61
Net Pension Liability	1,513	-	(1,333)	180	-
Compensated Absences	69	51	(57)	63	1
Net OPEB Obligation	-	23	-	23	-
Long-Term Liabilities – Business-type Activities	\$ 27,318	\$ 74	\$ (2,914)	\$ 24,478	\$ 1,413

The Town intends to retire all of its general obligation bonds (other than those recorded in the enterprise funds), plus interest, from future Ad Valorem tax levies, interest income, and transfers from other funds. The Town is required by ordinance to create from such tax revenues a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. There is \$370,437 available in the General Obligation Debt Service Fund to service the general obligation bonds.

Proprietary fund-type debt is to be repaid from net revenues of the enterprise funds and is, accordingly, recorded as enterprise fund debt. The Note Payable referenced above in the Business-type Activities was created in July 2015 as part of a ground lease early termination agreement at the Addison Airport. The Town of Addison will pay \$375,000 in 72 equal payments of \$5,208 each month, accruing no interest, beginning August 1, 2015. This creates a remaining annual principal only payment of \$62,500 for years 2017 through 2019 and an annual payment of \$54,000 in 2020.

There are a number of limitations and restrictions contained in the various general obligations, certificates of obligation, and revenue bond indentures. The Town is in compliance with all significant limitations and restrictions at September 30, 2017.

For the governmental activities, compensated absences are generally liquidated in the General Fund, Economic Development Fund and Hotel Fund. The net OPEB obligation is generally liquidated in the General Fund.

Town of Addison, Texas
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NOTES TO FINANCIAL STATEMENTS
September 30, 2017

III. DETAILED NOTES ON ALL FUNDS (CONTINUED)

The debt service requirements on the aforementioned bonded debt are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
General Obligation Bonds:				
2018	\$ 3,205,000	\$ 2,224,176	\$ 360,000	\$ 267,300
2019	3,570,000	2,102,442	665,000	257,850
2020	2,705,000	1,986,748	690,000	240,650
2021	2,820,000	1,880,507	320,000	224,250
2022	2,865,000	1,767,492	340,000	211,050
2023-2027	16,395,000	6,858,269	1,920,000	827,750
2028-2032	19,105,000	2,850,992	1,955,000	350,375
2033-2037	3,715,000	114,251	430,000	10,750
	<u>\$ 54,380,000</u>	<u>\$ 19,784,877</u>	<u>\$ 6,680,000</u>	<u>\$ 2,389,975</u>
Certificates of Obligation:				
2018	\$ 1,704,148	\$ 403,195	\$ 990,852	\$ 592,575
2019	710,000	369,013	705,000	572,320
2020	720,000	354,713	730,000	554,620
2021	735,000	340,163	755,000	531,770
2022	755,000	321,488	790,000	504,195
2023-2027	4,205,000	1,180,663	4,520,000	1,999,216
2028-2032	2,425,000	662,613	5,625,000	964,338
2033-2037	2,845,000	245,266	1,825,000	59,906
	<u>\$ 14,099,148</u>	<u>\$ 3,877,114</u>	<u>\$ 15,940,852</u>	<u>\$ 5,778,940</u>

At September 30, 2017, the Town had \$26,000,000 authorized but unissued general obligation bonds.

G. Interfund Transfers

Transfers between funds during the year ended September 30, 2017 were comprised of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Purpose of Transfer</u>
General Fund	\$ -	\$ 3,017,676	For capital projects
General Fund	-	425,000	For economic development
Utility Fund	-	800,000	For capital projects
Capital Project Fund	3,017,676	-	For capital projects
Economic Development Fund	425,000	-	For economic development
Economic Development Fund	548,000	-	For economic development
Capital Project Fund	800,000	-	For capital projects
Hotel Fund	-	548,000	For economic development
Hotel Fund	-	711,500	For payment of debt service
Hotel Debt Service Fund	711,500	-	For payment of debt service
<i>Total Transfers</i>	<u>\$ 5,502,176</u>	<u>\$ 5,502,176</u>	

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Town maintained workers compensation, general liability and property coverage through the Texas Municipal League Intergovernmental Risk Pool (TMLIRP). The Town pays an annual premium to TMLIRP for such coverage. TMLIRP purchases reinsurance and the Town does not retain risks of loss exceeding deductibles. The Town's general liability coverage is \$5,000,000 and \$10,000,000 in the aggregate. Settled claims have not exceeded insurance coverage in each of the past four years.

Prior to the 2001 fiscal year, the Town participated in a retained-risk program with TMLIRP under which the Town assumed the risk of paying for all individual claims with a specific stop-loss of \$175,000 and an annual aggregate stop-loss of \$525,000. Outstanding claims associated with the risk retention program are accounted for in the General Fund and are recorded as Accounts Payable.

For the period of October 2016 to September 2017, the Town offered health benefits through one of two plans operated by Blue Cross Blue Shield. Employees were able to choose either an HMO (health maintenance organization) plan or a PPO (preferred provider organization) plan. The Town also offers a dental plan through Delta Dental. The HMO, PPO, and dental plans are funded by joint contributions from the employees and the Town and are accounted for in the respective operating funds.

Blue Cross and Delta Dental plans are fully insured contracts. Monthly premiums paid to Blue Cross and Delta Dental were based upon fixed employee and dependent rates that are established each year.

B. Employee's Retirement System

1) Pension Plan

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

Plan Description

The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 860 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

TMRS issues a publicly available Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The report is also available on the System's web site at: <http://www.tmr.com/publications.php>.

Benefits Provided

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

Benefits depend upon the sum of the employee's contributions to the plan and the Town-financed monetary credits, with interest. At the date the plan began, the Town granted monetary credits for services rendered before the plan began based on an amount equal to two times what would have been contributed by the employee plus interest. Monetary credits for service since the plan began are 200 percent of the employee's accumulated contributions. Beginning in 1994, the Town adopted an annually repeating type of monetary credit referred to as an updated service credit which when added to the employee's accumulated contributions and the monetary credits for service since the plan began would be the total monetary credits and employee contributions accumulated with interest, if the current employee contribution rate and Town matching percent had always been in existence. The calculation included a three year exponential average of the actual salaries paid during the prior fiscal years.

At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits plus interest were used to purchase an annuity. Also in 1994, the Town adopted annually repeating annuity increases for its retirees equal to 70% of the change in the consumer price index.

The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Members can retire at certain ages, based on the years of service with the Town. The service retirement eligibilities for the Town are: 5 years/age 60, 20 years/any age. Plan provisions for the Town are as follows:

Deposit Rate:	7%
Matching Ratio (Town to Employee):	2 to 1
A member is vested after:	5 years

Employees Covered by Benefit Terms.

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

Inactive employees or beneficiaries currently receiving benefits	191
Inactive employees entitled to but not yet receiving benefits	218
Active employees	<u>246</u>
Total	<u>655</u>

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Town matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contribution rate for the Town is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Since the Town needs to know its contribution rates in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

Employees for the Town were required to contribute 7% of their annual gross earnings during the fiscal year. The Town elected to contribute at the full rates for calendar year 2017 of 10.44%. Accordingly, contributions to TMRS for the year ended September 30, 2017 were \$1,893,931 and were equal to the required contribution.

Net Pension Liability

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

Actuarial Assumptions:

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

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

Salary increases were based on service-related tables. Mortality rates for active members and retirees were multiplied by 109% for males and by 103% for females. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were 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 adopted in 2015 and used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

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:

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

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

For the purpose of this valuation, the expected rate of return on pension plan investments is 6.75%. A single discount rate of 6.75% was used to measure the total pension liability as of December 31, 2016. This single discount rate was based on the expected rate of return on pension plan investments of 6.75%. Based on the stated assumptions and the projection of cash flows, the Town's fiduciary net position and future contributions were sufficient to finance the future benefit payments of the current plan members for all projection years. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for the Town. The projection of cash flows used to determine the single discount rate for the Town assumed that the funding policy adopted by the TMRS Board will remain in effect for all future years. Under this funding policy, the Town will finance the unfunded actuarial accrued liability over the years remaining for the closed period existing for each base in addition to the employer portion of all future benefit accruals (i.e. the employer normal cost).

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 9/30/2016	\$ 136,067,935	\$ 109,184,735	\$ 26,883,200
Changes for the year:			
Service cost	2,740,122	-	2,740,122
Interest	7,721,380	-	7,721,380
Changes of benefit terms	(20,027,692)	-	(20,027,692)
Difference between expected and actual experience	(37,547)	-	(37,547)
Changes of assumptions	-	-	-
Contributions - employer	-	1,743,443	(1,743,443)
Contributions - employee	-	1,266,899	(1,266,899)
Net investment income	-	7,376,667	(7,376,667)
Benefit payments, including refunds of employee contributions	(6,038,979)	(6,038,979)	-
Administrative expense	-	(83,336)	83,336
Other	-	(4,490)	4,490
Net changes	(15,642,716)	4,260,204	(19,902,920)
Balance at 9/30/2017	\$ 120,425,219	\$ 113,444,939	\$ 6,980,280

The Net Pension Liability change from 2016 of \$26,883,200 to 2017 of \$6,980,280 is due to a change in an actuarial assumption related to the treatment of Ad Hoc COLA awarded by Council in prior years. For GASB 68 compliance, actuarials are expected to consider Ad Hoc COLA's impact on future pension obligations to retirees, if certain criteria are met. In 2016, the Town met the criteria to consider previous Ad Hoc COLAs as substantively recurring for future years. This resulted in the \$26,883,200 potential liability for pension expense. However, in 2017 the Town did not meet the criteria to include Ad Hoc COLAs as recurring so the potential liability was reduced by \$20,027,692, which along with other changes as shown above, led to a liability reduction of \$19,902,920 to a current balance of \$6,980,280. For GASB compliance this difference of \$19,902,920 is considered an adjustment to prior pension expense.

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

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Town's net pension liability(asset)	\$ 22,524,156	\$ 6,980,280	\$ (5,878,857)

Town of Addison, Texas
Basic Financial Statements

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2017, the Town recognized pension expense of \$3,276,973. At September 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual economic experience	\$ -	\$ (1,019,465)
Contributions subsequent to the measurement date	1,636,353	-
Change of assumptions	248,305	-
Difference between projected and actual investment earnings	5,131,877	-
Total	<u>\$ (7,016,535)</u>	<u>\$ (1,019,465)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$1,636,353 will be recognized as a reduction of the net pension liability for the year September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Sept 30	Net deferred outflows (inflows) of resources
2018	\$ 1,388,725
2019	1,506,817
2020	1,468,981
2021	<u>(3,716)</u>
Total	<u>\$ 4,360,717</u>

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

2) Postemployment Benefits

Plan Description

In addition to the pension benefits described above, as required by state law and defined by Town Policy, the Town makes available health care benefits to all employees who retire from the Town and who are receiving benefits from a Town-sponsored retirement program (Texas Municipal Retirement System and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare plan provides lifetime insurance, or until age 65 if eligible for Medicare, to eligible retirees, their spouses and dependents through the Town's group health insurance plan, which covers both active and retired members.

Current retirees in the health plan and active employees with 20 years or more of service or at age 60 or more with five years or more of service at retirement are eligible to remain in the health plan at the total blended contribution rate for active and retiree participants. Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report. Benefit provisions for retirees are not mandated by any form of employment agreement. The continued provision of these benefits is based entirely on the discretion of the Town of Addison City Council.

Funding Policy

Before age 65, the Town will pay a \$150 monthly stipend toward the retiree's healthcare premium if the retiring employee meets the eligibility criteria at the time of termination and elects coverage in the health plan. For members who retire after 65 or were eligible for the \$150 stipend before age 65, the Town will pay a \$75 monthly stipend directly to the retiree. Current retirees contribute to the health plan the total blended premium for active and retired participants, less the \$150 stipend provided by the Town. The Town contribution to the health plan consists of total premiums in excess of retiree contributions.

Retirees receiving medical benefits during fiscal year 2017 contribute \$499 to \$1,600 per month depending on coverage levels selected. In fiscal year 2017, total retiree contributions were \$122,754.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) for the health plan is calculated based on the annual required contribution (ARC) of the Town, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The Town of Addison utilized the actuarial services of Gabriel, Roeder, Smith & Company (GRS), a company who has been providing actuarial consulting services since 1938, under the shared services arrangement provided by GRS and North Central Texas Council of Governments. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and the net OPEB obligation for 2017.

Annual Required Contribution	\$ 410,841
Interest on OPEB Obligation	26,484
Adjustment to ARC	<u>(25,800)</u>
Annual OPEB Cost (Expense)	411,525
Contributions Made	<u>(127,439)</u>
Change in OPEB Obligation	284,086
Net OPEB Obligation (Asset) – Beginning of Year	<u>486,154</u>
Net OPEB Obligation (Asset) -- End of Year	<u>\$ 770,240</u>

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Costs</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	201,225	164,742	81.9%	465,473
2016	207,455	186,774	90.0%	486,154
2017	235,574	127,439	54.1%	770,240

Funded Status and Funding Progress

As of December 31, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,827,548, none of which is funded. The covered payroll (annual payroll of active employees covered by the plan) was \$18,098,559, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.62%. Of the total actuarial accrued liability, \$2,132,1088 or 75% comprises the implied subsidy of health care for current retirees and active employees upon retirement. As noted previously, qualified retirees pay the blended cost of their health coverage, less the \$150 monthly stipend. However, GASB 45 requires governments to report the "implicit rate subsidy" that is provided to retirees who remain with the health plan provided to employees. It is assumed by actuaries that the cost of health care increases with the age of the covered employee or retiree. Since the Town's health plan includes a blended rate that is the same for active employees and retirees, actuaries must estimate the amount the Town is subsidizing for retirees to pay the blended health plan premiums.

For example, the actuarial estimated monthly cost for a 40 year old male employee's health care benefit is \$491.92. The estimate for a male employee or retiree who is 60 years old is \$1,355.22. The difference in these costs not covered by the health plan premium is considered to be the "implicit rate subsidy."

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the trend of healthcare costs. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The analysis of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the Town chose to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero. Because the majority of the actuarial accrued liability is the "implicit rate subsidy" of retiree blended health plan premiums, the Town believes that its actual health plan postemployment benefit will not significantly grow over time and will continue to fund these benefits on a pay-as-you-go method. Changes to how future healthcare benefits are funded on a national basis may cause the Town to reexamine this funding method.

Actuarial Methods and Assumptions

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

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

In the December 31, 2016 actuarial valuation, the most recent valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions include a 4.0% investment rate of return (compounded annually, net after investment expenses) and an annual healthcare cost trend of 7.0%, reduced by decrements to an ultimate rate of 4.0% after 9 years. Both rates include a 2.5% inflation assumption. The Town's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over an open period. The remaining amortization period at December 31, 2016 was 30 years.

C. Contingencies

The Town is party to various legal actions arising in the ordinary course of business, none of which is believed by the Town's management to have a material impact on the financial condition of the Town. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

D. Keller Springs Tollway

In 1999, the North Texas Tollway Authority (Authority) completed a toll tunnel that connects Midway Road and the North Dallas Tollway. The project benefits the Town by diverting traffic from Belt Line Road, which is at capacity. The project's cost was approximately \$25 million which will be funded by revenue bonds issued by the Authority. Through an agreement with the Authority, the Town has pledged to be a guarantor of the debt service associated with approximately \$2.5 million of the revenue bonds in the event the authority defaults on the bonds. Because the Authority is an extremely viable state agency, the likelihood of a default is negligible.

E. Tax Incentive Rebates

The Town of Addison has two active Commercial Development and Job Related Incentive Rebates that develop or redevelop a particular property attracting businesses that generate incremental tax revenues. In addition to GASB 77, the agreements are subject to Chapter 380 of the Texas Local Government Code that promotes local economic development, commercial activity and business stimulation. City Council approves the agreements via resolution. As part of the agreements, the Town agrees to rebate a portion of the ad valorem or sales tax after confirmation of payment. If the businesses do not meet the obligations as set forth in the agreements in a particular year, the businesses forego the rebates in that year.

The agreement with one entity, executed March 4, 2016, provides a rebate for 50% of business personal property (ad valorem) tax for ten years and a total amount of \$50,000 for waiver of permit fees. The amount forgone on this contract in the year ended September 30, 2017 was \$34,042, and no payments have been made.

The agreement with the other entity provides a rebate for 75% of sales tax over a threshold amount, of which the calculation is outlined in the contract. The Town has paid \$318,650 during the fiscal year ended September 30, 2017. Also, the contract allows for the Town of Addison to commission an independent traffic study regarding an area specified in the contract, and if warranted, the Town will pay for capital expenses related to potential signalization or other needed improvements in the specified area. No traffic study has been warranted or commissioned as of September 30, 2017. Also, the contract requires a tree mitigation amount of \$424,385 to be paid in five installments starting the 10th anniversary of the contract execution date, which was in August 2012.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

IV. OTHER INFORMATION (CONTINUED)

F. New Accounting Pronouncements

The Town has adopted and implemented the following statements which became effective for the fiscal year 2017.

Statement No. 77, "Tax Abatement Disclosures" – This statement requires governments that enter into tax abatement agreements to provide certain disclosures regarding these commitments.

Statement No. 82, "Pension Issues, an amendment of GASB Statements No. 67, No. 68 and No. 73" - This statement clarifies that a "deviation," as defined by the Actuarial Standards of Practice, issued by the Actuarial Standards Board, is not considered to be in conformity with the requirements of GASB Statements No. 67, No. 68 and No. 73 for the selection of assumptions used to measure the total pension liability and related measures. Additionally, this statement requires member contributions paid by the employer, to be excluded from employer contributions and from corresponding pension related deferred resources.

The GASB has issued the following statement which will become effective in a future year.

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" – This statement changes the focus of accounting for postemployment benefits other than pensions from whether they are responsible for funding the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. This statement will become effective for the Town in fiscal year 2018.





Required Supplementary Information



Town of Addison, Texas

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Retirement System

Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)
Last Three Fiscal Years (Previous years are not available)

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016
Total pension liability:			
Service cost	\$ 2,819,937	\$ 3,120,695	\$ 2,740,122
Interest (on the Total Pension Liability)	8,660,470	9,031,058	7,721,380
Changes in benefit terms	-	-	(20,027,692)
Difference between expected and actual experience	(987,858)	(1,253,581)	(37,547)
Change in assumptions	-	467,077	-
Benefit payments, including refunds of employee contributions	(5,193,445)	(5,504,175)	(6,038,979)
Net change in total pension liability	5,299,104	5,861,074	(15,642,716)
Total pension liability - beginning	124,907,757	130,206,861	136,067,935
Total pension liability - ending (a)	130,206,861	136,067,935	120,425,219
Plan fiduciary net position:			
Contributions - employer	1,789,255	1,824,122	1,743,443
Contributions - employee	1,224,976	1,257,382	1,266,899
Net investment income	6,157,338	164,587	7,376,667
Benefit payments, including refunds of employee contributions	(5,193,445)	(5,504,175)	(6,038,979)
Administrative expense	(64,289)	(100,255)	(83,336)
Other	(5,286)	(4,952)	(4,490)
Net change in plan fiduciary net position	3,908,549	(2,363,291)	4,260,204
Plan fiduciary net position - beginning	107,639,477	111,548,026	109,184,735
Plan fiduciary net position - ending (b)	111,548,026	109,184,735	113,444,939
Net pension liability - ending (a) - (b)	\$ 18,658,835	\$ 26,883,200	\$ 6,980,280
Plan fiduciary net position as a percentage of total pension liability	85.67%	80.24%	94.20%
Covered payroll	\$ 17,479,153	\$ 17,945,341	18,098,559
Net pension liability as a percentage of covered payroll	106.75%	149.81%	38.57%

Changes in assumptions: In the 2015 valuation the investment rate of return decreased from 7.0% to 6.75%; the inflation rate was lowered from 3.0% to 2.5%; the experience study for retirement age was updated.

The information in this schedule has been determined as of the measurement date (December 31) of the Town's net pension liability and is intended to show information for 10 years. However, until a full 10-year trend is compiled in accordance with the provisions of GASB 68, only periods of which such information is available are presented.

Town of Addison, Texas
Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Retirement System
Schedule of Contributions (Unaudited)

September 30, 2017

	(1)	(2)	(3) = (2) - (1)	(4)	(5) = (1) / (4)	(6) = (2) / (4)
Fiscal Year	Actuarially Determined Contribution	Contribution in Relation to the Actuarially Determined Contribution	Contribution Excess (Deficiency)	Covered Payroll	Actuarially Determined Contributions as a Percentage of Covered Payroll	Contributions as a Percentage of covered Payroll
2015	1,874,383	1,874,383	-	18,804,927	9.97%	9.97%
2016	1,786,827	1,786,827	-	18,465,892	9.68%	9.68%
2017	1,893,931	1,893,931	-	18,796,558	10.08%	10.08%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rate for 2017:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014 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	

Other Information:

Notes There were no benefit changes during the year.

The information in this schedule has been determined as of the Town's fiscal year-end and is intended to show information for 10 years. However, until a full 10-year trend is compiled in accordance with the provisions of GASB 68, only periods for which such information is available are presented.

Town of Addison, Texas
Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION

Retiree Health Plan
Analysis of Funding Progress (Unaudited)
September 30, 2017

		(1)	(2)		(3) = (2) - (1)	(4)	(5) = (3)/(4)
Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	12/31/10	-	1,968,533	-	1,968,533	15,557,784	12.65%
2013	12/31/12	-	2,003,539	-	2,003,539	15,598,079	12.84%
2015	12/31/14	-	2,137,029	-	2,137,029	16,603,192	12.87%
2017	12/31/16	-	2,827,548	-	2,827,548	17,945,341	15.76%



APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[Form of Bond Counsel Opinion]

\$13,115,000
TOWN OF ADDISON, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018

WE HAVE represented the Town of Addison, Texas (the "Issuer") as its bond counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

TOWN OF ADDISON, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018, dated December 1, 2018 issued in the principal amount of \$13,115,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer and other public officials; and other certified showings relating to the authorization and issuance of the Certificates. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Certificate No. 1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Ordinance.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer; and
- (B) A continuing ad valorem tax upon all taxable property within the Town of Addison, Texas, necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; in addition, the payment of the principal of and interest on the Certificates is further secured by a pledge of the Surplus Revenues of the Issuer's Waterworks and Sewer System (as defined in the Ordinance), such pledge being limited to an amount not in excess of \$1,000; and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT, under existing law:

- (1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Certificates are not "private activity bonds" within the meaning of the Code, and, as such, interest on the Certificates is not subject to the alternative minimum tax on individuals.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the initial purchasers with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the initial purchasers, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Certificates from gross income for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing covenants of the Ordinance, interest on the Certificates could become includable in gross income from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

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