

Dated May 11, 2018

Ratings:
Fitch: "AA+"
S&P: "AA+"
(See "Other Information -
Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

THE CERTIFICATES WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$9,615,000*
CITY OF DENTON, TEXAS
(Denton County)
CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: May 15, 2018
Interest Accrues from Delivery Date

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$9,615,000* City of Denton, Texas Certificates of Obligation, Series 2018 (the "Certificates") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year, commencing February 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 BOKF, NA, Dallas, Texas (see "The Obligations - 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 (the Certificate of Obligation Act of 1971), as amended, and Texas Government Code, Chapter 1371, as amended, and constitute direct obligations of the City of Denton, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of surplus net revenues of the City's Utility System not in excess of \$1,000, as provided in the Certificate Ordinance (defined herein) authorizing the Certificates (see "The Obligations - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (a) renovations to, and equipping of, existing municipal buildings, including the acquisition and installation of replacement heating, venting and air conditioning equipment, roofing and flooring; (b) acquisition of vehicles and equipment for the fire, police, building inspections, community improvement services, animal services, streets and traffic control, facilities management, and parks and recreation departments; (c) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to runways and taxiways at the municipal airport; and (d) acquiring, constructing, renovating, installing and equipping fire stations, including the acquisition of land therefor: and also for the purpose of paying all or a portion of the City's contractual obligations for professional services, including engineers, architects, attorneys, map makers, auditors, and financial advisors, in connection with said projects and the Certificates (see "Plan of Financing").

MATURITY SCHEDULE

See page 2

SEPARATE ISSUES . . . The Certificates are being offered by the City concurrently with the "City of Denton, Texas General Obligation Bonds, Series 2018" (the "Bonds"), and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations." The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Initial Purchaser subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions").

DELIVERY . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on June 21, 2018.

SEALED BIDS DUE MAY 24, 2018, AT 10:00 AM, CDT**

* Preliminary, subject to change. See "Adjustment of Principal Amount and/or Types of Bids" in the Notice of Sale for the Certificates.

** Place and Time of Bid Opening . . . The City will accept bids for the sale of the Certificates on a day during the period beginning May 24, 2018 and initially ending June 7, 2018. At least 12 hours prior to the sale of the Certificates, Hilltop Securities Inc., as Financial Advisor to the City, will communicate, through Parity and Bloomberg, the date and time for submission of bids. The Financial Advisor, acting on behalf of the City, shall accept bids up to the time specified in the notice as hereinbefore described.

MATURITY SCHEDULE***CUSIP Prefix: 248866⁽¹⁾**

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 775,000	2019				\$ 265,000	2029			
875,000	2020				275,000	2030			
920,000	2021				280,000	2031			
970,000	2022				290,000	2032			
1,020,000	2023				300,000	2033			
365,000	2024				310,000	2034			
380,000	2025				320,000	2035			
400,000	2026				330,000	2036			
415,000	2027				345,000	2037			
425,000	2028				355,000	2038			

(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. Neither of the City or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations – Optional Redemption").

* Preliminary, subject to change. See "Adjustment of Principal Amount and/or Types of Bids" herein.

PRELIMINARY OFFICIAL STATEMENT

Dated May 11, 2018

Ratings:
Fitch: "AA+"
S&P: "AA+"
(See "Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$19,410,000*
CITY OF DENTON, TEXAS
(Denton County)
GENERAL OBLIGATION BONDS, SERIES 2018

Dated Date: May 15, 2018

Interest Accrues from Delivery Date

Due: February 15, as shown below

PAYMENT TERMS . . . Interest on the \$19,410,000* City of Denton, Texas General Obligation Bonds, Series 2018 (the "Bonds") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year, commencing February 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 Bonds 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 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds 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 Bonds. See "The Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Texas Government Code, Chapters 1371 and 1331, as amended, and are direct obligations of the City of Denton, Texas (the "City"), payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, as provided in the Bond Ordinance (defined herein) authorizing the Bonds (see "The Obligations - Authority for Issuance" and "The Obligations - Security and Source of Payment").

PURPOSE . . . Proceeds of the Bonds are expected to be used (i) street improvements, storm water drainage and flood control improvements, and park system improvements; and (ii) to pay the costs associated with the issuance of the Bonds (see "Plan of Financing").

MATURITY SCHEDULE

See page 4

SEPARATE ISSUES . . . The Bonds are being offered by the City concurrently with the "City of Denton, Texas Certificates of Obligation, Series 2018" (the "Certificates"), under a common Official Statement, and such Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Bonds and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Forms of Bond Counsel's Opinions").

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on June 21, 2018.

SEALED BIDS DUE MAY 24, 2018, AT 10:30 AM, CDT**

* Preliminary, subject to change. See "Adjustment of Principal Amount and/or Types of Bids" in the Notice of Sale for the Bonds.

** Place and Time of Bid Opening . . . The City will accept bids for the sale of the Bonds on a day during the period beginning May 24, 2018 and initially ending June 7 2018. At least 12 hours prior to the sale of the Bonds, Hilltop Securities Inc., as Financial Advisor to the City, will communicate, through Parity and Bloomberg, the date and time for submission of bids. The Financial Advisor, acting on behalf of the City, shall accept bids up to the time specified in the notice as hereinbefore described.

MATURITY SCHEDULE***CUSIP Prefix: 248866⁽¹⁾**

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 555,000	2019				\$ 995,000	2029			
685,000	2020				1,025,000	2030			
715,000	2021				1,055,000	2031			
735,000	2022				1,095,000	2032			
770,000	2023				1,125,000	2033			
800,000	2024				1,165,000	2034			
840,000	2025				1,205,000	2035			
885,000	2026				1,245,000	2036			
925,000	2027				1,290,000	2037			
965,000	2028				1,335,000	2038			

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REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations – Optional Redemption").

* Preliminary, subject to change. See "Adjustment of Principal Amount and/or Types of Bids" herein.

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

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.

For purposes of compliance with Rule 15c 2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes an Official Statement of the City with respect to the Obligations that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by the Rule.

The information set forth herein has been obtained from the City 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. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Other Information - Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

Neither the City 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.

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

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Denton (the "City") is a political subdivision and municipal corporation of the State, located in Denton County, Texas. The City covers approximately 97.411 square miles (see "Introduction - Description of the City").
THE BONDS	The \$19,410,000* City of Denton General Obligation Bonds, Series 2018 are to mature on February 15 in the years 2019 through 2038 (see "The Obligations - Description of the Obligations").
THE CERTIFICATES	The \$9,615,000* City of Denton Certificates of Obligation, Series 2018 are to mature on February 15 in the years 2019 through 2038 (see "The Obligations - Description of the Obligations").
PAYMENT OF INTEREST	Interest on the Bonds accrues from the Delivery Date (defined herein) and is payable February 15, 2019 and each August 15 and February 15 thereafter until maturity or prior redemption. Interest on the Certificates accrues from the Delivery Date and is payable February 15, 2019 and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Obligations - Description of the Obligations" and "The Obligations - Optional Redemption").
AUTHORITY FOR ISSUANCE	<p>The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapters 1371 and 1331, as amended, and an ordinance (the "Authorizing Bond Ordinance") of the City in which the City Council will delegate to each of the City Manager, the Deputy City Manager and the Assistant City Manager authority to complete the sale of the Bonds. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Bonds (the Authorizing Bond Ordinance and the Pricing Certificate for the Bonds are jointly referred to as the "Bond Ordinance") (see "The Obligations - Authority for Issuance").</p> <p>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 Texas Government Code, Chapter 1371, as amended, and an ordinance (the "Authorizing Certificate Ordinance") of the City in which the City Council will delegate to each of the City Manager, the Deputy City Manager and the Assistant City Manager authority to complete the sale of the Certificates. The terms of the sale will be included in a "Pricing Certificate," which will complete the sale of the Certificates (the Authorizing Certificate Ordinance and the Pricing Certificate for the Certificates are jointly referred to as the "Certificate Ordinance") (see "The Obligations - Authority for Issuance").</p>
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the City, payable from a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "The Obligations - Security and Source of Payment").
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the City, payable from a combination of (i) a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's Utility System (see "The Obligations - Security and Source of Payment").
REDEMPTION	The City reserves the right, at its option, to redeem Bonds and Certificates, as the case may be, having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Obligations - Optional Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "Tax Matters" herein.

* Preliminary, subject to change.

USE OF PROCEEDS

Proceeds of the Bonds are expected to be used (i) street improvements, storm water drainage and flood control improvements, and park system improvements; and (ii) to pay the costs associated with the issuance of the Bonds (see "Plan of Financing").

Proceeds from the sale of the Certificates will be used for (a) renovations to, and equipping of, existing municipal buildings, including the acquisition and installation of replacement heating, venting and air conditioning equipment, roofing and flooring; (b) acquisition of vehicles and equipment for the fire, police, building inspections, community improvement services, animal services, streets and traffic control, facilities management, and parks and recreation departments; (c) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to runways and taxiways at the municipal airport; and (d) acquiring, constructing, renovating, installing and equipping fire stations, including the acquisition of land therefor: and also for the purpose of paying all or a portion of the City's contractual obligations for professional services, including engineers, architects, attorneys, map makers, auditors, and financial advisors, in connection with said projects and the Certificates (see "Plan of Financing").

RATINGS..... The Obligations and the presently outstanding general obligation debt of the City are rated "AA+" by Fitch Ratings ("Fitch") and "AA+" by Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P"). See "Other Information – Ratings" herein.

BOOK-ENTRY-ONLY SYSTEM..... The definitive Obligations 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 Obligations may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see "The Obligations - Book-Entry-Only System").

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

SELECTED FINANCIAL INFORMATION

Fiscal		Net	Net		Ratio Net		
Year		Taxable	Taxable	Per Capita	Tax Debt to		
Ended	Estimated	Assessed	Assessed	Net Funded	Net Taxable	% of	
9/30	Population ⁽¹⁾	Valuation ⁽²⁾	Valuation	at End of	Assessed	Total Tax	
			Per Capita	Fiscal Year ⁽⁸⁾	Valuation	Collections	
2014	119,158	\$ 6,962,293,178 ⁽³⁾	58,429	\$ 123,827,115	1,039	1.78%	99.78%
2015	120,945	7,761,202,411 ⁽⁴⁾	64,171	135,879,058	1,123	1.75%	99.73%
2016	122,759	8,424,062,606 ⁽⁵⁾	68,623	144,036,173	1,173	1.71%	99.67%
2017	124,988	9,117,506,344 ⁽⁶⁾	72,947	167,552,663	1,341	1.84%	99.49%
2018	127,093	10,332,106,452 ⁽⁷⁾	81,296	180,912,936 ⁽⁹⁾	1,423	1.75%	98.05% ⁽¹⁰⁾

(1) Source: City Officials.

(2) Valuations shown are certified taxable assessed values reported by the Denton 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. Source: Denton Central Appraisal District as of July 22, 2017.

(3) Includes tax incremental value of approximately \$16,931,096 that is not available for the City's general obligations and debt of City.

(4) Includes tax incremental value of approximately \$35,975,197 that is not available for the City's general obligations and debt of City.

(5) Includes tax incremental value of approximately \$39,084,154 that is not available for the City's general obligations and debt of City.

(6) Includes tax incremental value of approximately \$54,744,149 that is not available for the City's general obligations and debt of City.

(7) Includes tax incremental value of approximately \$84,754,765 that is not available for the City's general obligations and debt of City.

(8) Excludes self-supported general obligation debt.

(9) Includes the Bonds and Certificates. Preliminary, subject to change.

(10) Collections for part year only, through April 1, 2018.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Term Expires</u>
Chris Watts Mayor	May, 2018
Gerard Hudspeth Councilmember, District 1	May, 2019
Keely Briggs Councilmember, District 2	May, 2019
Don Duff Councilmember, District 3	May, 2019
John Ryan Councilmember, District 4	May, 2019
Dalton Gregory Councilmember, At Large Place 5	May, 2018
Sara Bagheri Councilmember, At Large Place 6	May, 2018

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Todd Hileman	City Manager
Bryan Langley	Deputy City Manager
Mario Canizares	Assistant City Manager
Tony Puente	Director of Finance
Jennifer K. Walters	City Secretary
Aaron Leal	City Attorney

CONSULTANTS AND ADVISORS

Auditors Pattillo, Brown and Hill, L.L.P.
Waco, Texas

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

Financial Advisor Hilltop Securities Inc.
Fort Worth, Texas

For additional information regarding the City, please contact:

Tony Puente		Laura Alexander
Director of Finance		Adam LanCarte
City of Denton		Hilltop Securities Inc.
215 E. McKinney Street	or	777 Main Street, Suite 1200
Denton, Texas 76201		Fort Worth, Texas 76102
(940) 349-7283		(817) 332-9710

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

CITY OF DENTON, TEXAS

\$9,615,000*

CERTIFICATES OF OBLIGATION, SERIES 2018

\$19,410,000*

GENERAL OBLIGATION BONDS, SERIES 2018

INTRODUCTION

This Preliminary Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$19,410,000* City of Denton, Texas General Obligation Bonds, Series 2018 (the "Bonds") and \$9,615,000* City of Denton, Texas Certificates of Obligation, Series 2018 (the "Certificates"). The Bonds and the Certificates (collectively the "Obligations") are separate and distinct securities offerings being authorized for issuance under separate ordinances (the "Bond Ordinance" and the "Certificate Ordinance", respectively, each as defined below, and collectively the "Ordinances") adopted by the City Council of the City, but are being offered and sold pursuant to a common Official Statement, and while the Bonds and Certificates share certain common attributes, each issue is separate and apart from the other and should be reviewed and analyzed independently, including the kind and type of obligation being issued, its terms of payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and the covenants and agreements made with respect thereto. The City Council will adopt an ordinance on May 22, 2018 authorizing the issuance of the Bonds (the "Authorizing Bond Ordinance"). In the Authorizing Bond Ordinance, as permitted by the provisions of Chapter 1371, Texas Government Code, as amended, the City Council will delegate the authority to each of the City Manager, the Deputy City Manager and the Assistant City Manager to establish the terms and details of the Bonds and to effect the sale of the Bonds pursuant to a "Pricing Certificate" (the Authorizing Bond Ordinance and the Pricing Certificate for the Bonds are jointly referred to as the "Bond Ordinance"). The City Council will adopt an ordinance on May 22, 2018 authorizing the issuance of the Certificates (the "Authorizing Certificate Ordinance"). In the Authorizing Certificate Ordinance, as permitted by the provisions of Chapters 1371, Texas Government Code, as amended, the City Council will delegate the authority to each of the City Manager, the Deputy City Manager and the Assistant City Manager to establish the terms and details of the Certificates and to effect the sale of the Certificates pursuant to a "Pricing Certificate" (the Authorizing Certificate Ordinance and the Pricing Certificate for the Certificates are jointly referred to as the "Certificate Ordinance"). Capitalized terms used in this Preliminary Official Statement have the same meanings assigned to such terms in each respective Ordinance, except as otherwise indicated herein.

There follows in this Preliminary Official Statement descriptions of the Obligations and certain information regarding the City 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 City's Financial Advisor, Hilltop Securities Inc., Fort Worth, Texas.

DESCRIPTION OF THE CITY . . . The City of Denton, Texas (the "City") is a political subdivision located in Denton County operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1959. The City operates under the Council/Manager form of government where the Mayor and six Councilmembers are elected for staggered two-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The City is approximately 97.411 square miles in area.

PLAN OF FINANCING

PURPOSE . . . Proceeds of the Bonds are expected to be used (i) street improvements, storm water drainage and flood control improvements, and park system improvements; and; (ii) to pay the costs associated with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used for (a) renovations to, and equipping of, existing municipal buildings, including the acquisition and installation of replacement heating, venting and air conditioning equipment, roofing and flooring; (b) acquisition of vehicles and equipment for the fire, police, building inspections, community improvement services, animal services, streets and traffic control, facilities management, and parks and recreation departments; (c) acquiring, constructing, installing and equipping additions, extensions, renovations and improvements to runways and taxiways at the municipal airport; and (d) acquiring, constructing, renovating, installing and equipping fire stations, including the acquisition of land therefor; and also for the purpose of paying all or a portion of the City's contractual obligations for professional services, including engineers, architects, attorneys, map makers, auditors, and financial advisors, in connection with said projects and the Certificates.

* Preliminary, subject to change.

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS . . . The Obligations are dated May 15, 2018, and mature on February 15 in each of the years and in the amounts shown on page 2 and page 4 hereof. Interest will accrue from the date of initial delivery thereof (the "Delivery Date"), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2019 until maturity or prior redemption. The definitive Obligations 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 Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "The Obligations - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1371 and 1331, Texas Government Code, as amended, and the Bond Ordinance.

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Texas Government Code, Chapter 1371, as amended, and the Certificate Ordinance.

SECURITY AND SOURCE OF PAYMENT . . .

The Bonds . . . The Bonds constitute direct obligations of the City and the principal thereof and interest thereon are payable from an annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, as provided in the Bond Ordinance.

The Certificates . . . The Certificates constitute direct obligations of the City, payable from a combination of (i) a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's Utility System (consisting of the electric system and the waterworks and sewer system).

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City 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 Obligations, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt, as calculated at the time of issuance and based on 90% tax collection factor.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Obligations having stated maturities on and after February 15, 2028 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds or Certificates are to be redeemed, the City may select the maturities of Bonds or Certificates, as the case may be, to be redeemed. If less than all the Bonds or Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds or Certificates, as the case may be, are in Book-Entry-Only form) shall determine by lot the Bonds or Certificates, or portions thereof, within such maturity to be redeemed. If a Bond or 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 Bond or 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.

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

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations 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. IF AN OBLIGATION (OR ANY PORTION OF ITS PRINCIPAL SUM) SHALL HAVE BEEN DULY CALLED FOR REDEMPTION AND NOTICE OF SUCH REDEMPTION DULY GIVEN, THEN UPON THE REDEMPTION DATE SUCH OBLIGATION (OR THE PORTION OF ITS PRINCIPAL SUM TO BE REDEEMED) SHALL BECOME DUE AND PAYABLE, AND, IF MONIES FOR THE PAYMENT OF THE REDEMPTION PRICE ARE HELD FOR THE PURPOSE OF SUCH PAYMENT BY THE PAYING AGENT/REGISTRAR AND ALL OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST SHALL CEASE TO ACCRUE AND BE PAYABLE FROM AND AFTER THE REDEMPTION DATE ON THE PRINCIPAL AMOUNT REDEEMED.

DEFEASANCE . . . The Ordinances provide that any Obligation and the interest thereon shall be deemed to be paid, retired, and no longer outstanding (a "Defeased Obligation") within the meaning of such Ordinance when payment of the principal of such Obligation, plus interest thereon to the due date either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the City with the Paying Agent/Registrar for the payment of its services until all Defeased Obligations shall have become due and payable, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Government Obligations. At such time as an Obligation shall be deemed to be a Defeased Obligation hereunder, as aforesaid, such Obligation and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes herein levied and pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Government Obligations.

Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the City also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent/Registrar which is not required for the payment of the Obligations and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City, or deposited as directed in writing to the City. The Ordinances provide that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, and including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council approves such defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Upon such deposit as described above, such Defeased Obligations shall no longer be regarded to be outstanding obligations payable from ad valorem taxes levied by the City or from the other revenues pledged to their payment in the Ordinances, but will be payable only from the funds and Government Obligations deposited in escrow and will not be considered debt of the City for any purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call the Obligations for redemption or take any other action amending the terms of the Obligations are extinguished; provided, however, that the right to call the Obligations for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Obligations for redemption; and (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements; (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, 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 Obligations), 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 Obligations. The Obligations 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 security certificate will be issued for each maturity of the Obligations in the aggregate principal amount thereof and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participant to whose account such Obligations are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Obligations 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 issue to be redeemed.

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

Payments on the Obligations will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Obligations at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Obligation certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligations 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 Obligations 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 Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinances will be given only to DTC.

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Obligations will be issued to the holders and the Obligations will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "The Obligations - Transfer, Exchange and Registration" below.

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

In the event the use of the Book-Entry-Only system is discontinued, principal of the Bonds and Certificates is payable to the registered holder appearing on the registration books of the Paying Agent/Registrar (the "Registered Owner") at the designated corporate trust office of the Paying Agent/Registrar upon surrender of the Bonds and Certificates for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under "The Obligations - Book-Entry-Only System" herein. Interest on the Bonds and Certificates is payable to the Register Owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar by check mailed, first class postage prepaid, to the Register Owner or by such other arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the Registered Owner. If the date for the payment of the principal of or interest on the Bonds and Certificates shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Obligations will be delivered to the Registered Owners and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Obligations 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. Obligations may be assigned by the execution of an assignment form on the Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations 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 Obligations issued in an exchange or transfer of Obligations 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 Obligations 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 Obligations 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 as the Obligations surrendered for exchange or transfer. See "The Obligations—Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of the uncalled balance of an Obligation.

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (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 City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five

business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Registered Owner of a Bond and 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.

AMENDMENTS . . . In each Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder of the respective Obligation for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

Each Ordinance further provides that the holders of the Bonds or Certificates, as applicable, aggregating in principal amount a majority of the outstanding Bonds or Certificates, as the case may be, shall have the right from time to time to approve any amendment not described above to the applicable Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds or Certificates so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds or Certificates; (ii) reducing the rate of interest borne by any of the outstanding Bonds or Certificates; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds or Certificates; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds or Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds or Certificates necessary for consent to such amendment. Reference is made to the Ordinances for further provisions relating to the amendment thereof.

REMEDIES . . . Each Ordinance establishes specific events of default with respect to the respective series of Obligations. If the City defaults in the payment of the principal of or interest on the Bonds or Certificates when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners thereof, including but not limited to, their prospect or ability to be repaid in accordance with the respective Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, each Ordinance provides that any registered owner of a respective Obligation is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the respective Obligations or Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the owners of the respective Obligations upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia* 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality. In *Wasson Interests, Ltd., V. City of Jacksonville*, No. 489 S.W.3d 427 (Tex. 2016), ("Wasson") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to the breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people' and protecting such municipalities 'via the State's immunity is not an efficient way to ensure efficient allocation of State resources'". While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held the Proprietary-Governmental Dichotomy applies in contract-claims context. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code. Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of Obligations may not be able to bring such a suit against the City for breach of the Obligations or Ordinance covenants in the absence of City action. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its debt, but in connection with the issuance of the Obligations, the City has not waived sovereign immunity. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Registered Owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds or the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Obligationholders of an

entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Obligations are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only Registered Owner of the Bonds and Certificates will be Cede & Co., as DTC's nominee. See "The Obligations - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of the Bonds and Certificates.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Denton 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 V.T.C.A., Title I, Tax Code, as amended (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. 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 that would not 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 in the preceding tax year, plus (b) the property's appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the 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.

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 taxes levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements (other than maintenance, repairs or improvements required to comply with governmental requirements) and such freeze 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. 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, dependent upon the degree of disability or whether the exemption is applicable to a surviving spouse or children; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

Article VIII, Section 1-j, 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 districts, 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.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Property Tax Code, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. After taking such official action, the goods-in-transit remain subject to taxation by the local governmental entity until the governing body of the governmental entity rescinds or repeals its previous actions to tax goods-in-transit. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property.

The City or Denton County may create one or more tax increment financing districts ("TIF") within the City or Denton County, as applicable, 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 City 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 City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City 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 City has active reinvestment zones for tax abatements and tax increment financing zones for tax increment financing purposes. See "Tax Information - Tax Abatement Policy" and "- Tax Increment Financing" and "Table 1 - Valuation, Exemptions and General Obligation Debt".

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

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . Under the current Property Tax Code a governing body of a taxing unit is required to adopt its annual tax rate per \$100 taxable value for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The City Council may not adopt a tax rate that exceeds the lower of the effective tax rate or the rollback tax rate until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

The 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 City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process that 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 February 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, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to incur the penalty interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$50,000. Disabled taxpayers also receive a \$50,000 exemption.

The City grants an additional one-half of one percent, or a minimum of \$5,000 exemption of the market value of residence homesteads.

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt. The City does not tax nonbusiness personal property.

Denton County began collecting taxes for the City during the fiscal year 2006-07.

The City does not allow split payments, and discounts are not allowed.

The City does not tax freeport property.

The City collects the additional one-half cent sales tax for reduction of ad valorem taxes.

The City does tax "goods-in-transit".

The City has adopted the tax freeze (limitation) for citizens who are disabled or are 65 years of age or older.

The City has adopted a tax abatement policy.

The City participates in two tax increment reinvestment zones, which were created in 2010 and 2012.

TAX INCREMENT FINANCING . . . The City created Tax Increment Reinvestment Zone Number One (known as the Downtown TIF) in 2010. The TIF will expire in 2039 and reflects only the City's participation of: 100% for years 1-5; 95% for years 6-10; 90% for years 11-20; and 85% for years 21-30. According to Denton Central Appraisal District "DCAD" supplemental figures, the 2017 total appraised valuation of taxable real property in TIRZ Number One was \$161.4 million. This represents an \$11.4 million increase from the 2016 supplemental value of \$150.0 million. Since its inception, the value of the TIRZ has increased \$82.0 million, which represents a 103% increase in valuation.

The City created Tax Increment Reinvestment Zone Number Two (known as the Westpark TIRZ) in 2012 to provide the public infrastructure necessary to encourage development in the largest industrially zoned area (Westpark) in the City. The 2012 certified base value of Westpark TIRZ, according to the Denton Central Appraisal District, is \$119,458. The estimated revenue to be generated by the TIRZ is approximately \$14.3 million over a 25 year period for infrastructure improvements. The City will contribute \$10.1 million and Denton County will contribute \$4.2 million into the Westpark TIRZ fund. According to DCAD supplemental figures, the 2017 total appraised valuation of taxable real property in TIRZ Number Two was \$63.1 million. This is a \$63.0 million increase from the 2012 base value of \$119,458.

PUBLIC IMPROVEMENT DISTRICTS . . . The City created Rayzor Ranch Public Improvement District No. 1 (the "District") in 2014 for the undertaking and financing of public improvements authorized by Chapter 372 of the Texas Local Government Code. The project is located on the City's northern sector, east of Interstate 35, and encompasses approximately 229,693 contiguous acres. The estimated cost of the proposed public improvements total \$40 million, which may be paid for with special assessments levied on property within the District. The authorized improvement costs will be apportioned 100% to the District. The method of assessment will impose equal shares of the cost of the proposed public improvements on parcels that are similarly benefited. No City property will be assessed, and the City will not be obligated to pay any assessments.

TAX INCENTIVE POLICY . . . The City enters into economic development incentive agreements with entities to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax, and enhance the property tax base and economic vitality of the City. Some agreements provide for an abatement of property taxes, while others provide for a rebate of a portion of sales and use tax or a portion of property taxes, as established per the agreements. The incentives are performance-based, and the City generally expects to receive increased revenue as a result of the agreements. These incentive agreements require approval by a City Council ordinance and are authorized under Chapter 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code and Chapter 380 of the Texas Local Government Code.

PROPERTY TAX ABATEMENTS . . . Tax abatements under Chapter 312 of the Texas Tax Code allow the City to designate tax reinvestment zones and negotiate tax abatement agreements with applicants. In 1990, the City Council adopted a resolution setting guidelines and criteria for granting abatements in the reinvestment zones which specifically notes incentives are limited to companies which create new wealth and do not adversely affect existing businesses operating within the City. The abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer's property by a percentage specified in the agreement, and the taxpayer will pay taxes on the lower assessed value during the term of the agreement. For the fiscal year ended September 30, 2017, the City abated property taxes totaling \$432,226 under this program, as detailed in the following agreements:

- Aldi Foods – In 2007, a 100% tax abatement on all new valuation, except land, for a term of up to seven years was granted to Aldi Foods for a 500,000 square foot distribution center. The abatement amount is based on the cost incurred by Aldi to construct a road to the site. The abatement initiated in 2010 and was completed in 2016.
- Target – In 2010, a 65% tax abatement agreement for a \$100 million project was granted to Target Corporation for a period of five years for a 400,000 square foot frozen and refrigerated food distribution center and to help offset the costs to improve Airport and Corbin roads. In the event of a failure to meet the conditions of the agreement, and increased assessed value of real property of at least \$5 million, the agreement provides for a full refund all abatements previously granted plus interest. The abatement amount for the fifth and final year was \$395,868.

- Tetra Pak - In 2013, a 65% tax abatement agreement for a term of four years was granted to Tetra Pak Materials LP on new capital investment, including a 32,000 square foot expansion of their facility and relocating their corporate headquarter operations from Chicago to Denton. In the event of a failure to meet the conditions of the agreement, an increased assessed value of real property of at least \$5 million, the agreement provides for a full refund all abatements previously granted plus interest. The abatement amount for the current fiscal year was \$36,358, with one year remaining.
- In 2015, a 70% tax abatement for a term of eight years was granted to Peterbilt Motors for a 17,500 square foot expansion of their current facility to improve material flow from trucks into the expand metering center.. This project received its Certificate of Occupancy ("CO") for the expansion in February 2016. The final phase of this project included a storage and retrieval system for painted parts to help balance the product flow from pain to cab trim; it was completed in October 2016. Also in 2016, the existing Agreement was amended to add the construction and equipping of a 102,000 square-foot stand-alone building north of the existing plant. This \$30 million dollar investment will provide space for a new cab product and will improve operational efficiencies; the building received its CO in December 2016. Peterbilt did not meet the threshold, therefore; the abatement is not granted for tax year 2017.
- In 2016, West Gate Business Park received a 60% tax abatement for 10 years on improvements only to include Buildings 2 and 3 in the business park, which brings new Class A industrial/manufacturing space to Denton. West Gate could receive an additional 10% abatement for the location of a supplier to an existing primary industry and/or and additional 5% for the location of a national headquarters for a total abatement of up to 75%. The abatement will initiate the year following the year in which building 2 receives a CO. A permit was issued for building 2 in January of 2018.

The City has one additional abatement agreement not listed above that will become effective in future fiscal years should the grantees meet the obligations of the agreements.

CHAPTER 380 AGREEMENTS . . . Council has the authority under Chapter 380 of the Texas Local Government Code to grant or loan City funds in order to accomplish specific economic development goals. These incentives are considered on a case-by-case basis. The City has target industry sectors for recruitment that will be given priority consideration: aviation/aerospace, advanced manufacturing, renewable energy, research and development, information technology, supply chain for existing primary employers, and significant consumers of municipal utilities. Consideration may also be given for projects causing infill redevelopment or other desirable development objectives and/or any other activity which the City Council determines meets a specific public purpose for economic development.

Each agreement is based on the contribution in sales or property tax or both. For the fiscal year ended September 30, 2017, the City rebated sales taxes totaling \$2,630,275. and property taxes totaling \$155,503, as detailed in the following agreements

- Denton Crossing - In 2001, an agreement was approved for the 500,000 square foot, \$50 million Denton Crossing retail center. The grantee receives one-third of the City sales tax, or 0.5%, generated by the project for a maximum of fifteen years as reimbursement for public improvement costs related to the project not to exceed \$7,250,000 plus accrued interest. The tax rebates initiated in 2005 and will terminate in 2020. The tax rebate amount for the current fiscal year was \$547,701.
- Unicorn Lake - In 2004, an agreement was approved for Unicorn Lake, an urban style mixed-use development. The grantee receives one-third of the City sales tax, or 0.5%, generated by the project for a maximum of fifteen years as reimbursement for public improvement costs related to the project not to exceed \$6,664,901 plus accrued interest. The tax rebates initiated in 2010 and will terminate in 2025. The tax rebate amount for the current fiscal year was \$71,158.
- Rayzor Ranch - In 2007, an agreement was approved for the Rayzor Ranch mixed-use development. The 410-acre project will have over one million square feet of retail and will be built in two phases. The agreement provides a sales tax reimbursement of one half of the City sales tax, or 0.75%, generated by the project for public improvement costs, which include the widening of a state highway bisecting the project. The grantee will receive a maximum of \$20 million over a 15 year term for phase one and a maximum of \$48 million over a term of 20 years for phase two. An additional 15% of the City sales tax, was added to both phases to offset the hotel and convention center costs until \$5 million is reached. To date, only phase one (Marketplace) has initiated sales tax rebates which amounted to \$1,180,743.
- Phase Two (Town Center) is expected to initiate at the close of this fiscal year. Some of the stores in the Town Center include: Chili's, Raising Cane's, WinCo Foods, In-N-Out Burger, Chipotle, and Firehouse Subs. An 11-story, 318-room Embassy Suites hotel and 70,000 square-foot Convention Centre opened in December 2017. An additional 15% sales tax rebate on the Rayzor Ranch Town Center and Marketplace have been added to offset the hotel and convention center until \$5 million reached.
- Golden Triangle Mall – In 2011, an agreement was approved for a major renovation of the Golden Triangle Mall. A threshold of a minimum \$45 to \$65 million was required as an investment into the property to receive a one half share of the sales tax resulting from the renovations, less a monthly mall baseline amount established at \$95,898. The total grant payments are estimated between \$7.12 and \$9.5 million and may not exceed 15.83% of the required investment. The tax rebates initiated in 2016 and will terminate in 2035. The tax rebate amount for the current fiscal year was \$132,577.

- Schlumberger - In 2010, an agreement was approved for Grand Mesa for the renovation and equipping of the building for Schlumberger. The agreement was assigned to Schlumberger Technology Corporation in 2012 equal to one half of new property tax revenue generated for their 150,000 square foot regional maintenance facility. Agreement thresholds require maintaining \$5 million in real property improvements and business personal property valuation and the creation of 80 jobs with average wage of \$45,000. The term of the agreement is seven years and will terminate in 2018. In the event of a failure to meet the conditions of the agreement, the agreement provides for a full refund of all rebates previously granted plus interest. The tax rebate amount for the current fiscal year was \$51,232.
- Mayday Manufacturing - In 2012, an agreement was approved for Mayday Manufacturing/Tailwind Technologies for the relocation of the business and expansion of a manufacturing facility. The agreement provides a 75% tax rebate on the increment of property tax revenue generated above the base valuation for a period of ten years. In the event of a failure to meet the conditions of the agreement, an increased assessed value of real property of at least \$3 million, the agreement provides for a 50% refund of all rebates previously granted. The tax rebate amount for the current fiscal year was \$29,633. In 2017, Mayday received a Texas Enterprise Zone grant from the State of Texas for a 15,000 square foot building expansion for additional production capacity and consolidation of shipping and inspection departments, as well as additional machinery and equipment spread over the five years, primarily driven by production capacity associated with the expanded building footprint.
- West Gate Business Park - In 2015, an agreement was approved for West Gate Business Park (WGBP) for industrial development and provided for a 70% rebate of increased City property tax revenue generated for a period of ten years. WGBP includes three multi-tenant buildings totaling 413,000 square feet of new industrial/manufacturing space in the City. In 2016 the agreement was amended to include a 70% rebate on building 1 improvements and to add a one-time grant payment in the amount of \$50,000. A separate tax abatement agreement for building 2 and 3 was also approved so WGBP could be eligible to apply for a tax abatement from Denton County. The terms of the agreement include a 60% abatement of City property taxes attributable to new capital investments resulting in an increased assessed value of real property improvements. The amount of the abatement may be increased by an additional 5% for a national headquarters and/or 10% for a supplier in support of major employers in Denton. The rebate in the current fiscal year amounted to \$34,061.
- WinCo Foods - In 2015, an agreement was approved to WinCo Foods for a \$135 million, 800,000 square foot distribution facility expected to create 165 jobs with an annual payroll of around \$7.2 million. In the event of a failure to meet the conditions of the agreement, the agreement provides for a 20-50% refund of all rebates previously granted, depending on the timing of a failure. The agreement provides for the following:
 - A reimbursement of up to \$1,000,000 in infrastructure financing for water improvements and up to \$865,000 for sewer improvements. This payment was made during the prior fiscal year from the Water and Wastewater funds.
 - A grant equal to 100% of local Sales and Use Tax receipts collected by the City on construction materials and furniture, fixtures, and equipment purchases for the development of the property. The tax rebate amount for the prior fiscal year was \$361,030, which completed this grant.
 - A grant equal to 100% of the incremental property tax generated by the property and paid into the Tax Increment Fund by both the City and the County, paid annually until the full reimbursement of the project costs for public improvements is reached. These payments have not initiated as of the current fiscal year.
 - A grant equal to 60% of City property taxes attributable to improvements resulting in an increase of assessed value of real property improvements and tangible personal property, paid annually until full reimbursement of the project costs for public improvements is reached. Once this full reimbursement is reached, the 60% property tax rebate will continue for a period of four years as long as the increase in investment in improvements is \$50 million excluding purchase price of the property. These payments have not initiated as of the current fiscal year.
- O'Reilly Hotel Partners Denton – In 2015, an agreement was approved for O'Reilly Hotel Partners Denton for a convention center with a hotel and restaurant located in the Rayzor Ranch Town Center. The agreement includes a 100% rebate of the property tax (excluding land), hotel occupancy tax, and sales tax generated by the project. The term is for a maximum of 25 years or a combined principal (\$28 million) and interest (\$26 million) amount of \$54 million is reached, whichever comes first. The agreement also includes 100% rebate of the construction sales tax up to \$850,000, then 50% thereafter. In the event of a failure to meet the conditions of the agreement, the agreement provides for a 100% refund of all rebates granted in the previous year. The sales tax, Hotel Occupancy Tax, and sales and use tax rebate for the construction and equipping of the facility will initiate in the current fiscal year.
- In 2015, an agreement was granted to the Railyard downtown project that is located in the Downtown TIF, Downtown Implementation Plan "DTIP" and Transit Oriented Development "TOD" areas. Rail Yard Partners, LTD. renovated an existing 28,000 square foot building as a part of a larger transit-oriented catalyst project. They invested an initial \$12 million in the co-working and mixed-used space and will receive a total incentive of \$380,000 over five years from the Downtown TIF revenue. The project involves a Commercial Lease Agreement with Rail Yard Partners, LTD for Stoke

Denton, a 9,000 square foot entrepreneur center that provides coworking and office space, education and mentorship, and community for Denton's technology focused business. The Commercial Lease Agreement is a five year lease at \$9.75 per square foot for year one, with an approximate 3.7% increase in the cost annually thereafter, in addition to operating expenses including the City's pro rata share of real estate taxes, insurance, common area maintenance, and operating. The City will make the third payment this fiscal year in the amount of \$76,000.

- In 2015, US Aviation Group was awarded a three-year, 70% incentive on the increment of improvements and new business personal property to support the expansion of its commercial pilot and Defense Department contract pilot training activities. USAG invested in an expansion of its existing flight simulation training space as well as the purchase of additional simulation equipment and aircraft. The Chapter 380 Agreement was terminated this fiscal year. No payments were made prior to termination.
- In 2015, a grant agreement was awarded to Business Air. The grant is equal to 70% of the increase in property tax revenues on the improvements to the building and new business personal property up to a maximum of \$9.5 million in increased valuation for a period of two years. The company may extend the length of this grant by attracting additional investment in the form business aircraft based at its facilities at Denton Enterprise Airport by specified date and investment level thresholds. In addition to a grant extension, Business Air would receive five percent of the increase in taxable valuation attributable to these new business aircraft for the duration of the grant extension. Business Air was a full service FBO and certified FAR 135 Air Carrier providing fuel, hangar, charter, and aircraft management services to corporate and private clients at the Denton Enterprise Airport. The company had plans to build a new 24,000 square foot hangar with an additional 4,000 square feet of office space. Business Air did not meet the threshold and was purchased by US Aviation Group, so the Chapter 380 Agreement was terminated this fiscal year. No payments were made prior to termination.
- In 2015, an agreement was approved for Victor Technologies, a global manufacturer of gas control and specialty welding solutions. The Original San Francisco manufacturing operations were relocated to their new headquarters in Denton in the mid-1960s. Victor Technologies has expanded its existing facility, including approximately 30,000 square feet of new Research and Development space along with a new 185,400 square foot warehouse and remodeled parking lots. Victor has approximately 500 employees at the facility. Victor Technologies received an incentive equal to 65% of the increase in the City's ad valorem taxes for seven years while maintaining a minimum of 85 percent of new jobs created with an average wage of \$28.81 per hour. Victor did not meet the valuation threshold and the Chapter 380 Agreement was terminated this fiscal year. No payments were made prior to termination.
- In 2015 an incentive was awarded to Buc-ee's Travel Center that will include an approximately 53,000 square foot retail store, fuel stations, car wash and peripheral development along I-35E. The incentive reimburses the developer for public infrastructure improvements and other neighborhood/public amenities. The proposed development has resulted in the Texas Department of Transportation "TxDOT" advancing several mobility improvements to the intersections of Loop 288/Lillian Miller and I-35E, Mayhill Road and I-35E, and Brinker Road and I-35E. These improvements will enhance mobility and address traffic congestion and will be completed in the spring of 2018. In order to facilitate these improvements, TxDOT requires a local funding match of \$2 million. The developer will fund the \$2 million, to be reimbursed as a part of the incentive agreement. Additionally, the developer will incur approximately \$5.2 million in public infrastructure costs, including water, wastewater, storm sewer, right-of-way dedication, and constructing a new city street. The City has granted an incentive of 50% sales tax rebate for 25 years, on the Buc-ee's parcel as well as the outparcels. The first phase consists of 50% for 5 years for infrastructure improvements. The second phase grants a 50% sales tax rebate for the Buc-ee's travel center, retail and sit down restaurants; and 25% on remaining fast food and service. The project is currently under construction and is anticipated to come online in fiscal year 2018/19.
- In 2016, Sally Beauty Supply, LLC was awarded a three-year, 50% incentive on the increment of improvements to its facility at 3900 Morse Street in Denton. Sally's international corporate headquarters has been located in Denton since 1982, and the company has more than 5,000 stores and 10 distribution centers worldwide. The improvements at Morse Street will allow Sally Beauty to house 80 new or relocated employees. Sally received a Certificate of Occupancy in August of 2017, so the project will initiate in fiscal year 2018/19.

The City has two additional Chapter 380 agreements not listed above becoming effective in future fiscal years should the grantees meet the obligations of the agreements.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2017/18 Market Valuation Established by Denton Central Appraisal District		\$ 11,639,962,979
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 91,671,530	
Over 65 Exemptions	345,474,847	
Disabled Persons Exemptions	10,965,980	
Disabled Veterans Exemptions	57,356,519	
Agricultural Land Use Productivity	319,406,849	
Historical/Other Exemptions	4,761,084	
Freeport Exemptions	187,207,919	
Abatement Exemptions	59,456,376	
Police Patrol Vehicle Exemptions	224,763	
Pollution Exemptions	4,272,985	
Homestead Cap Adjustment	<u>142,302,910</u>	<u>1,223,101,762</u>
2017/18 Taxable Assessed Valuation (as of 7-18-2017)		\$ 10,416,861,217
2017/18 Incremental Taxable Assessed Value of Real Property within Reinvestment Zones		<u>(84,754,765)</u>
2017/18 Net Taxable Assessed Valuation available for General Obligations and Debt of City (as of 7-18-17)		<u><u>\$ 10,332,106,452</u></u>
City Funded Debt Payable from Ad Valorem Taxes		
General Obligation Bonds (as of 4-1-18)	\$ 219,760,000	
Certificates of Obligation (as of 4-1-18)	456,540,000	
Tax and Utility System Revenue Debt (as of 4-1-18)	32,610,000	
The Bonds	19,410,000 ⁽¹⁾	
The Certificates	<u>9,615,000 ⁽¹⁾</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 737,935,000
Less Self-Supporting General Obligation Debt ⁽²⁾		
Solid Waste System General Obligation Debt	\$ 45,992,064	
Utility System General Obligation Debt	<u>511,030,000</u>	<u>557,022,064</u>
Net Tax Supported Debt Payable from Ad Valorem Taxes		<u><u>\$ 180,912,936</u></u>
Interest and Sinking Fund as of 4-1-17 (estimated)		\$ 2,671,250
Ratio Total Funded Debt to Net Taxable Assessed Valuation		7.14%
Ratio Net Funded Debt to Net Taxable Assessed Valuation		1.75%
2018 Estimated Population - 127,093		
Per Capita Net Taxable Assessed Valuation - \$81,296		
Per Capita Total Funded Debt - \$5,806		
Per Capita Net Funded Debt - \$1,423		

(1) Preliminary, subject to change.

(2) As a matter of policy, the City pays debt service on its general obligation debt issued to fund improvements to its Utility System and Solid Waste System from surplus revenues of these Systems (see "Table 7 – General Obligation Debt Service Requirements" and "Table 9 – Computation of Self-Supporting Debt"). This policy may be subject to change in the future.

The City's Utility System is comprised of the City's entire existing electric, light and power system and the waterworks and sewer system. Drainage is managed under the waterworks and wastewater system. The City's Utility System General Obligation Debt has been issued to finance or refinance Utility System improvements and contractual obligations and is paid, or is expected to be paid, from Utility System revenues. In addition, the City has \$214,890,000 Utility System Revenue Bonds outstanding payable from a pledge of Utility System revenues.

The City's Solid Waste System General Obligation Debt has been issued to finance or refinance Solid Waste System improvements and is paid, or is expected to be paid, from Solid Waste System revenues. The City has no outstanding Solid Waste System Revenue Bonds.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY ⁽¹⁾

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 5,711,426,395	49.07%	\$ 5,050,316,875	48.55%	\$ 4,455,409,227	46.50%
Real, Residential, Multi-Family	1,452,048,587	12.47%	1,247,987,048	12.00%	1,242,659,794	12.97%
Real, Vacant Lots/Tracts	238,997,340	2.05%	183,550,766	1.76%	200,531,094	2.09%
Real, Acreage (Land Only)	327,193,762	2.81%	313,050,791	3.01%	299,567,590	3.13%
Real, Farm and Ranch Improvements	113,770,920	0.98%	119,724,601	1.15%	111,308,374	1.16%
Real, Commercial and Industrial	2,259,827,756	19.41%	2,023,976,712	19.46%	1,932,405,225	20.17%
Real, Oil, Gas, and Other Mineral Reserves	82,501,483	0.71%	60,792,028	0.58%	127,737,402	1.33%
Real and Tangible Personal, Utilities	102,343,081	0.88%	64,350,693	0.62%	64,179,367	0.67%
Tangible Personal, Commercial and Industrial	1,238,258,788	10.64%	1,236,965,926	11.89%	1,075,139,088	11.22%
Tangible Personal, Other	24,371,243	0.21%	22,215,017	0.21%	21,987,482	0.23%
Real and Special Property, Inventory	89,223,624	0.77%	79,726,107	0.77%	51,485,367	0.54%
Total Appraised Value Before Exemptions	\$ 11,639,962,979	100.00%	\$ 10,402,656,564	100.00%	\$ 9,582,410,010	100.00%
Less: Total Exemptions/Reductions	(1,223,101,762)		(1,230,406,071)		(1,119,263,250)	
Less: Tax Increment Value	(84,754,765)		(54,744,149)		(39,084,154)	
Net Taxable Assessed Value	<u>\$ 10,332,106,452</u>		<u>\$ 9,117,506,344</u>		<u>\$ 8,424,062,606</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2015		2014	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 4,062,947,070	45.57%	\$ 3,720,193,268	35.76%
Real, Residential, Multi-Family	1,089,958,543	12.23%	924,229,117	8.88%
Real, Vacant Lots/Tracts	180,886,051	2.03%	150,027,306	1.44%
Real, Acreage (Land Only)	299,966,303	3.36%	274,941,322	2.64%
Real, Farm and Ranch Improvements	95,625,308	1.07%	80,481,975	0.77%
Real, Commercial and Industrial	1,829,135,437	20.52%	1,621,678,792	15.59%
Real, Oil, Gas, and Other Mineral Reserves	93,196,666	1.05%	78,106,929	0.75%
Real and Tangible Personal, Utilities	91,139,063	1.02%	91,097,444	0.88%
Tangible Personal, Commercial and Industrial	1,091,736,374	12.25%	943,996,533	9.07%
Tangible Personal, Other	21,761,614	0.24%	15,167,604	0.15%
Real Property, Inventory	58,971,257	0.66%	62,732,470	0.60%
Total Appraised Value Before Exemptions	\$ 8,915,323,686	100.00%	\$ 7,962,652,760	76.54%
Less: Total Exemptions/Reductions	(1,118,146,078)		(983,428,486)	
Less: Tax Increment Value	(35,975,197)		(16,931,096)	
Net Taxable Assessed Value	<u>\$ 7,761,202,411</u>		<u>\$ 6,962,293,178</u>	

(1) Valuations shown are certified taxable assessed values reported by the Denton 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. For the Fiscal Year ended 2018, the values were reported on July 18, 2017 based on information as of January 1, 2017.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Net Taxable Assessed Valuation Per Capita	Net Tax Debt Outstanding at End of Year ⁽⁸⁾	Ratio Net Tax Debt to Net Taxable Assessed Valuation	Net Funded Tax Debt Per Capita
2014	119,158	\$ 6,962,293,178 ⁽³⁾	\$ 58,429	\$ 123,827,115	1.78%	\$ 1,039
2015	120,945	7,761,202,411 ⁽⁴⁾	64,171	135,879,058	1.75%	1,123
2016	122,759	8,424,062,606 ⁽⁵⁾	68,623	144,036,173	1.71%	1,173
2017	124,988	9,117,506,344 ⁽⁶⁾	72,947	167,552,663	1.84%	1,341
2018	127,093	10,332,106,452 ⁽⁷⁾	81,296	180,912,936 ⁽⁹⁾	1.75%	1,423

(1) Source: City Officials.

(2) Valuations shown are certified taxable assessed values reported by the Denton 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. Source: Denton Central Appraisal District as of July 18, 2017.

(3) Excludes tax incremental value of approximately \$16,931,096 that is not available for the City's general obligations and debt of City.

(4) Excludes tax incremental value of approximately \$35,975,197 that is not available for the City's general obligations and debt of City.

(5) Excludes tax incremental value of approximately \$39,084,154 that is not available for the City's general obligations and debt of City.

(6) Excludes tax incremental value of approximately \$54,744,149 that is not available for the City's general obligations and debt of City.

(7) Excludes tax incremental value of approximately \$84,754,765 that is not available for the City's general obligations and debt of City.

(8) Excludes self-supported general obligation debt.

(9) Projected. Includes the Bonds and Certificates. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended	Tax Rate	Distribution		Tax Levy ⁽¹⁾	% Current Collections	% Total Collections
9/30		General Fund	Interest and Sinking Fund			
2014	\$ 0.68975	0.47480	\$ 0.21495	\$ 48,455,564	99.23%	99.78%
2015	0.68975	0.48119	0.20856	53,681,947	99.67%	99.73%
2016	0.68975	0.47456	0.21519	58,583,075	99.48%	99.67%
2017	0.68334	0.46674	0.21660	64,030,255	99.49%	99.49%
2018	0.63786	0.43031	0.20755	66,444,574	98.05% ⁽²⁾	98.05% ⁽²⁾

(1) Tax levy for the year 2018 is based on the adjusted certified value. Prior years represent adjusted values that include all supplements through September 30, 2017. Includes tax incremental reinvestment zone revenues.

(2) Collections through April 1, 2018 (partial year).

TABLE 5 - TEN LARGEST TAXPAYERS ⁽¹⁾

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Well Services Division of STC	Services/ Manufacturing	\$171,825,010	1.65%
Columbia Medical Center of Denton	Hospital/Professional Building	86,844,895	0.83%
Paccar Inc.	Diesel Truck Manufacturing	63,980,244	0.61%
AC Denton LLC	Apartments	58,727,232	0.56%
Winco Food LLC	Food Distribution	57,478,070	0.55%
Timber Links Apts. LP	Apartment Complexes	44,553,646	0.43%
Inland Western Denton Crossing Ltd PS	Real Estate Development	43,621,838	0.42%
NREA Gardens, DST	Apartments	39,048,036	0.37%
HRA University Courtyard LLC	Apartments	38,253,000	0.37%
Gateway Investors Owner LLC	Apartments	35,640,032	0.34%
		<u>\$ 639,972,003</u>	<u>6.14%</u>

(1) Source: Denton Central Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "The Obligations – Tax Rate Limitation" for a description of the limitations on ad valorem tax rates).

TABLE 6 - ESTIMATED OVERLAPPING TAX DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("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 City, the City 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 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 City.

Taxing Jurisdiction	2017/18 Taxable Assessed Value	2017/18 Tax Rate	Total Funded Debt	Estimated % Applicable	City's Overlapping Funded Debt As of 4-1-18	Authorized But Unissued Debt As Of 4-1-18
City of Denton	\$ 10,332,106,452 ⁽¹⁾	\$ 0.68334	\$ 180,912,936 ⁽²⁾	100.00%	\$ 180,912,936 ⁽²⁾	\$ 34,035,000 ⁽³⁾
Denton Independent School District	16,446,508,477	1.54000	799,994,104	62.36%	498,876,323	-
Denton County	88,330,714,230	0.23780	645,305,000	12.36%	79,759,698	57,165,554
Argyle Independent School District	1,616,457,767	1.48500	127,941,246	10.77%	13,779,272	118,850,000
Aubrey Independent School District	869,734,183	1.51000	86,720,663	0.13%	112,737	10,114,000
Krum Independent School District	682,608,929	1.54000	40,496,569	5.95%	2,409,546	-
Pilot Point Independent School District	617,043,328	1.37000	16,730,000	0.15%	25,095	-
Ponder Independent School District	596,168,593	1.46780	19,245,000	1.39%	267,506	-
Sanger Independent School District	929,217,982	1.37210	20,562,830	0.47%	96,645	-
Total Direct and Overlapping Funded Debt					<u>\$ 776,239,758</u>	
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation.....					7.51%	
Per Capita Overlapping Funded Debt.....					\$ 5,738.76	

(1) Excludes tax incremental value of approximately \$84,754,765 that is not available for the City's general obligations and debt of City.

(2) Includes the Obligations. Excludes self-supporting debt. See Tables 1 and 9 herein for more detailed information on the City's general obligation self-supporting debt. Preliminary, subject to change.

(3) Reflects remaining authorization after the issuance of the Bonds.

TABLE 7 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt Service ⁽¹⁾		The Bonds ⁽²⁾		The Certificates ⁽³⁾		Total Outstanding Debt	Less: Self- Supporting Solid Waste Debt Service	Less: Self- Supporting Utility Debt Service	Total Debt Service Requirements	% of Principal Retired
9/30	Principal	Interest	Principal	Interest	Principal	Interest					
2018	\$ 53,940,000	\$ 31,828,935	\$ -	\$ -	\$ -	\$ -	\$ 85,768,935	\$ 9,540,490	\$ 53,997,237	\$ 22,231,208	
2019	56,430,000	28,760,133	555,000	807,068	775,000	445,426	87,772,626	8,995,033	55,700,169	23,077,424	
2020	57,170,000	26,219,526	685,000	675,550	875,000	343,550	85,968,626	8,449,482	55,653,281	21,865,863	
2021	53,005,000	23,672,439	715,000	647,550	920,000	298,675	79,258,664	6,968,198	51,557,294	20,733,172	
2022	49,850,000	21,241,608	735,000	618,550	970,000	251,425	73,666,583	5,773,867	48,859,500	19,033,216	34.93%
2023	41,930,000	19,110,301	770,000	588,450	1,020,000	201,675	63,620,426	3,475,901	43,856,331	16,288,194	
2024	40,345,000	17,267,936	800,000	557,050	365,000	168,875	59,503,861	3,090,719	41,508,231	14,904,911	
2025	38,145,000	15,559,974	840,000	520,050	380,000	153,975	55,598,999	2,945,129	38,820,106	13,833,764	
2026	31,245,000	14,095,290	885,000	476,925	400,000	138,375	47,240,590	2,721,788	31,493,019	13,025,784	
2027	31,170,000	12,783,362	925,000	431,675	415,000	122,075	45,847,112	2,341,644	31,216,334	12,289,134	58.88%
2028	28,850,000	11,528,668	965,000	394,075	425,000	107,400	42,270,143	1,838,678	30,077,375	10,354,090	
2029	27,735,000	10,366,443	995,000	364,675	265,000	97,050	39,823,168	1,786,316	29,022,625	9,014,227	
2030	29,020,000	9,197,142	1,025,000	334,375	275,000	88,950	39,940,467	1,791,206	29,122,953	9,026,307	
2031	23,705,000	8,104,816	1,055,000	302,516	280,000	80,450	33,527,781	1,558,144	23,319,900	8,649,738	
2032	22,580,000	7,188,819	1,095,000	268,238	290,000	71,362	31,493,418	1,294,556	21,745,188	8,453,675	76.38%
2033	20,610,000	6,363,575	1,125,000	232,163	300,000	61,775	28,692,513	1,256,306	19,218,519	8,217,688	
2034	17,225,000	5,648,363	1,165,000	194,222	310,000	51,669	24,594,253	1,128,331	16,120,738	7,345,184	
2035	15,635,000	5,048,181	1,205,000	154,228	320,000	41,038	22,403,447	786,800	15,056,731	6,559,916	
2036	13,460,000	4,518,559	1,245,000	112,884	330,000	30,069	19,696,513	535,775	14,403,531	4,757,206	
2037	11,440,000	4,061,066	1,290,000	69,300	345,000	18,463	17,223,828	66,300	13,714,481	3,443,047	87.24%
2038	10,085,000	3,655,956	1,335,000	23,363	355,000	6,213	15,460,531	-	13,740,956	1,719,575	
2039	10,495,000	3,266,881	-	-	-	-	13,761,881	-	13,761,881	-	
2040	10,915,000	2,861,881	-	-	-	-	13,776,881	-	13,776,881	-	
2041	11,340,000	2,439,188	-	-	-	-	13,779,188	-	13,779,188	-	
2042	11,805,000	1,974,269	-	-	-	-	13,779,269	-	13,779,269	-	94.35%
2043	12,305,000	1,473,544	-	-	-	-	13,778,544	-	13,778,544	-	
2044	12,795,000	977,788	-	-	-	-	13,772,788	-	13,772,788	-	
2045	9,855,000	549,397	-	-	-	-	10,404,397	-	10,404,397	-	
2046	6,290,000	251,894	-	-	-	-	6,541,894	-	6,541,894	-	
2047	3,475,000	69,500	-	-	-	-	3,544,500	-	3,544,500	-	100.00%
	<u>\$762,850,000</u>	<u>\$300,085,432</u>	<u>\$19,410,000</u>	<u>\$ 7,772,905</u>	<u>\$ 9,615,000</u>	<u>\$ 2,778,488</u>	<u>\$1,102,511,826</u>	<u>\$66,344,663</u>	<u>\$ 781,343,840</u>	<u>\$254,823,322</u>	

DEBT INFORMATION

- (1) "Outstanding Debt" does not include lease/purchase obligations, however, it does include self-supporting debt. Preliminary, subject to change.
(2) Average life of the issue - 11.423 years. Interest on the Bonds has been calculated at the rate of 3.26% for purposes of illustration. Preliminary, subject to change.
(3) Average life of the issue - 7.836 years. Interest on the Certificates has been calculated at the rate of 3.06% for purposes of illustration. Preliminary, subject to change.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION ⁽¹⁾

Budgeted Tax Supported Debt Service Requirements and Fiscal Charges, Fiscal Year Ending 9/30/2018	\$ 85,768,935	
Interest and Sinking Fund Balance as of 9/30/17	\$ 5,409,144	
Interest and Sinking Fund Tax Levy	21,443,770	
From Revenue Supported Sources	64,147,464	
Interest Income	200,000	91,200,378
Estimated Balance, 9/30/18		<u>\$ 5,431,443</u>

(1) Source: City's Annual Budget for Fiscal Year 2017/18.

TABLE 9 - COMPUTATION OF SELF-SUPPORTING DEBT

Net Revenue from Solid Waste System, Fiscal Year Ended 9-30-17	\$ 10,557,026 ⁽¹⁾
Less: Solid Waste System Revenue Bond Requirements, 2018 Fiscal Year	<u>-</u>
Balance Available for Other Purposes	\$ 10,557,026
Solid Waste System General Obligation Bond Requirements, 2018 Fiscal Year	<u>(9,540,490) ⁽²⁾</u>
Balance	<u>\$ 1,016,536</u>
Net Revenue from Utility System, Fiscal Year Ended 9-30-17	\$ 85,629,828 ⁽¹⁾
Less: Utility System Revenue Bond Requirements, 2018 Fiscal Year	<u>(10,685,000)</u>
Balance Available for Other Purposes	\$ 74,944,828
Utility System General Obligation Bond Requirements, 2018 Fiscal Year	<u>(53,997,237)</u>
Balance	<u>\$ 20,947,591</u>

(1) Does not deduct franchise fees and/or return on investment paid to the General Fund.

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Heretofore Issued	Amount Being Issued	Unissued Balance
Street	11/4/2014	\$ 61,710,000	18,290,000	15,650,000	27,770,000
Drainage	11/4/2014	8,545,000	5,255,000	2,585,000	705,000
Parks	11/4/2014	11,355,000	4,280,000	1,515,000	5,560,000
		<u>\$ 81,610,000</u>	<u>\$ 27,825,000</u>	<u>\$ 19,750,000</u>	<u>\$ 34,035,000</u>

(1) Preliminary, subject to change.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . As shown in Table 10 above, after the issuance of the Bonds, the City will have \$34,035,000 voted but unissued debt remaining to be issued from the November 4, 2014 authorization. The City may also issue tax-supported debt other than voter approved general obligation bonds to fund public improvements, such as certificates of obligation or tax anticipation notes, without submitting a measure to the voters, but in certain instances, subject to voter petition rights for a referendum. Further, the City may issue tax-supported debt other than voter approved general obligation bonds to refund bonds or other obligations not currently payable from or supported by ad valorem taxes, such as the City's Utility System revenue bonds. The City anticipates the issuance of approximately \$21,400,000 in tax supported debt in the second quarter of 2019.

TABLE 11 - OTHER OBLIGATIONS

The City has entered into capital lease agreements. The following is a schedule of future minimum lease payments under these capital leases and the present value of the net minimum lease payments as of September 30, 2017:

Year Ending 30-Sep	Annual Lease Payment
2018	\$ 505,054
2019	4,172
Total Minimum Lease Payment	\$ 509,226
Less: Amount Representing Interest	11,164
Present Value of Minimum Future Lease Payments	<u>\$ 498,062</u>

PENSION FUND . . . The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly-available comprehensive annual financial report obtainable at www.tmrs.com.

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

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

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

Upon retirement, benefits depend on the sum of the employee's contributions, with interest, and the city financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. Prior service credit, granted by each city joining TMRS, is a monetary credit equal to the accumulated value of the percentage of prior service credit adopted times and employee's deposits that would have been made, based on the average salary prior to participation, for the number of months the employee has been employed, accruing 3% annual interest, and including the matching ratio adopted by the City. Monetary credits for service since the plan began (or current service credits) are a percent (200%) of the employee's accumulated contributions. In addition, the City grants on an annually repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming the current member deposit rate of the City (7%) has always been in effect. The computation also assumes the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, and increased by the city match currently in effect (200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted. The plan provisions also include an annually repeating basis cost of living adjustments for retirees equal to 70% of the change in the consumer price index.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after five 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	520
Inactive Employees Entitled to But Not Yet Receiving Benefits	478
Active Employees	<u>1,245</u>
	2,243

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.23% and 17.30% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$14,648,606 and were equal to the required contributions.

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

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

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal ("EAN") actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected real rate of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, TMRS's actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return of each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
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%	

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 409,277,260	\$ 324,618,549	\$ 84,658,711
Changes for the year:			
Service cost	13,925,238	-	13,925,238
Interest	27,656,654	-	27,656,654
Change of benefit terms	-	-	-
Difference between expected and actual experience	763,589	-	763,589
Changes of assumptions	-	-	-
Contributions - employer	-	14,046,860	(14,046,860)
Contributions - employee	-	5,712,464	(5,712,464)
Net investment income	-	21,947,635	(21,947,635)
Benefit payments, including refunds of employee contributions	(13,023,330)	(13,023,330)	-
Administrative expense	-	(247,766)	247,766
Other changes	-	(13,349)	13,349
Net changes	29,322,151	28,422,514	899,637
Balance at 12/31/2016	\$ 438,599,411	\$ 353,041,063	\$ 85,558,348

Sensitivity of the Net Pension Liability to changes in the Discount Rate . . . The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
City's Net Pension Liability	\$151,647,722	\$85,558,348	\$31,623,977

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions . . . For the year ended September 30, 2017, the City recognized pension expense of \$19,051,014. This amount is included as part of personal services expenses.

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

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 14,589,173	\$ (28,706)
Contributions subsequent to the measurement date	11,269,409	-
Differences between expected and actual economic experience	613,276.00	(984,869)
Difference in assumption changes	-	(256,929)
Total	\$ 26,471,858	\$ (1,270,504)

\$11,269,409 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the City's fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31st	
2017	\$ 4,832,223
2018	4,832,224
2019	4,112,336
2020	143,138
2021	12,024
Total	<u>\$ 13,931,945</u>

Supplemental Death Benefit Fund . . . The City of Denton contributes to a cost-sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1st of any year to be effective the following January 1st.

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other postemployment benefit" ("OPEB") and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the TMRS Pension Trust Fund.

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined by an annual actuarial valuation and is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund described above. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net assets available for OPEB.

The City's contributions to the TMRS SDBF for the fiscal years ended September 30, 2015, 2016, and 2017, were \$133,686, \$149,630, and \$152,556, respectively, which equaled the required contributions each year.

FIREMEN'S RELIEF AND RETIREMENT FUND

Plan Description . . . The City contributes to the retirement plan for firefighters in the Denton Fire Department known as the Denton Firemen's Relief and Retirement Fund (the "Fireman's Fund"). The Fireman's Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fireman's Fund are authorized by the Texas Local Fire Fighters' Retirement Act ("TLFFRA"). TLFFRA provides the authority and procedure to amend benefit provisions. The plan is administered by the Board of Trustees of the Firemen's Fund. The City does not have access to nor can it utilize assets within the retirement plan trust. The Fireman's Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Denton Firemen's Relief and Retirement Fund at P.O. Box 2375, Denton, Texas 76202. See that report for all information about the plan fiduciary net position.

Benefits Provided . . . Firefighters in the Denton Fire Department are covered by the Fireman's Fund which provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighters may retire at age 50 with 20 years of service. A partially-vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. If a terminated firefighter has a partially vested benefit, the firefighter may retire starting on the date they would have both completed 20 years of service if he had remained a Denton firefighter and attained age 50. As of the December 31, 2015 actuarial valuation date, the plan effective January 1, 2011 provided a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 2.59% of Highest 36-Month Average Salary for each year of service.

A retiring firefighter who is at least age 52 with at least 22 years of service has the option to elect the Retroactive Deferred Retirement Option Plan ("RETRO DROP") which will provide a lump sum benefit and a reduced monthly benefit. The reduced monthly benefit is based on the service and Highest 36-Month Average Salary as if the firefighter had terminated employment on his selected RETRO DROP benefit calculation date, which is no earlier than the later of the date the firefighter meets the age 52 and 22 years of service requirements and the date four years prior to the date the firefighter actually retires. Upon retirement, the member will receive, in addition to the monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the Fireman's Fund after the RETRO DROP benefit calculation date plus (2) the total of the monthly retirement benefits the member would have received between the RETRO DROP benefit calculation date and the date retired under the plan. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

There is no provision for automatic postretirement benefit increases. The Fireman's Fund has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases.

Employees Covered by Benefit Terms . . . In the December 31, 2015 actuarial valuation, the following numbers of members were covered by the Fireman's Fund:

Inactive Employees or Beneficiaries Currently Receiving Benefits	84
Inactive Employees Entitled to But Not Yet Receiving Benefits	2
Active Employees	<u>176</u>
	262

Contributions . . . The contribution provisions of the Fireman's Fund are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

The funding policy of the Fireman's Fund requires contributions equal to 12.6% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The City currently contributes according to a City ordinance the same percentage of payroll the City contributes to the TMRS for other employees each calendar year. The City contribution rate was 17.41% in calendar year 2016 and 17.48% in calendar year 2017 until mid-December when the rate changed to 18.5%. The December 31, 2015 actuarial valuation includes the assumption that the city contribution rate will average 15.5% over the plan's unfunded actuarial accrued liability ("UAAL") amortization period. The costs of administering the plan are paid from the Fireman's Fund assets. The City's contributions to the Fireman's Fund for the year ended September 30, 2017 were \$2,814,029.

Ultimately, the funding policy also depends upon the total return of the Fireman's Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. The board selects investments and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the calendar year ending December 31, 2016, the money-weighted rate of return on pension plan investments was 10.17%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the Fireman's Fund must first be approved by an eligible actuary, certifying the contribution commitment by the firefighters and the assumed city contribution rate together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's UAAL. The number of years needed to amortize the plan's UAAL is actuarially determined using an open, level percentage of payroll method.

Net Pension Liability . . . The City's net pension liability for the Fireman's Fund was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 and rolled forward to December 31, 2016.

Actuarial Assumptions . . . The total pension liability for the Fireman's Fund in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% per year
Overall payroll growth	3.00% per year, plus promotion, step and longevity increases that vary by service
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA.

The long-term expected rate of return on the Fireman's Fund pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 5.00%) and by adding expected inflation (2.50%). In addition, the final 6.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.75% for adverse deviation. The target allocation and expected arithmetic net 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)
Equities		
Large Cap Domestic	40.0%	5.90%
Small/Mid Cap Domestic	10.0%	6.40%
International Developed	10.0%	6.40%
Alternatives		
Master Limited Partnerships	8.0%	7.90%
Real Estate	15.0%	4.40%
Fixed Income	10.0%	0.90%
Cash	7.0%	0.00%
Total	100.0%	

Discount Rate . . . The discount rate used to measure the total pension liability for the Fireman's Fund was 6.75%. No projection of cash flows was used to determine the discount rate because the December 31, 2015 actuarial valuation showed expected contributions would pay the normal cost and amortize the UAAL in 32 years. Because of the 32-year amortization period of the UAAL, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	\$ 89,942,685	\$ 67,976,717	\$ 21,965,968
Changes for the year:			
Service cost	3,089,911	-	3,089,911
Interest	6,135,588	-	6,135,588
Change of benefit terms	-	2,759,844	(2,759,844)
Difference between expected and actual experience	-	1,997,155	(1,997,155)
Changes of assumptions	-	6,935,215	(6,935,215)
Contributions - employer	-	-	-
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds of employee contributions	(4,270,006)	(4,270,006)	-
Administrative expense	-	(94,175)	94,175
Other changes	-	-	-
Net changes	4,955,493	7,328,033	(2,372,540)
Balance at 12/31/2016	<u>\$ 94,898,178</u>	<u>\$ 75,304,750</u>	<u>\$ 19,593,428</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate . . . The following presents the net pension liability of the City for the Fireman's Fund, calculated using the discount rate of 6.75%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
City's Net Pension Liability	\$31,679,502	\$19,593,428	\$ 9,414,393

Pension Plan Fiduciary Net Position . . . The plan fiduciary net position reported above is the same as reported by the Fireman's Fund. Detailed information about the plan fiduciary net position is available in the Fireman's Fund's separately issued audited financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions . . . For the year ended September 30, 2017, the City recognized pension expense of \$3,983,918 for the Fireman's Fund. Amounts recognized in the fiscal year represent changes between the current and prior year measurement dates. This amount is included as part of personal services expenses.

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

	Deferred Outflow of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 5,058,092	\$(1,866,823)
Contributions subsequent to the measurement date	2,152,993	-
Differences between expected and actual economic experience	-	(1,641,453)
Difference in assumption changes	1,855,036	-
Total	\$ 9,066,121	\$(3,508,276)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$2,152,993 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 and the City's fiscal year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31st	
2016	\$ 1,263,085
2017	1,263,085
2018	1,214,160
2019	(439,253)
2020	27,452
Thereafter	76,323
Total	\$ 3,404,852

OTHER POST EMPLOYMENT BENEFITS . . . The cost of post-employment healthcare benefits, from an accrual accounting perspective, similar to the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. According to the requirements of GASB Statement No. 45 for the fiscal year ended September 30, 2017, the City recognizes the cost of post-employment healthcare in the year the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be amortized over 30 years, the first period commencing with the fiscal year ending September 30, 2008.

Plan Description . . . The City provides post-employment medical care, which is also an OPEB, for retired employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City's group health insurance plans, which covers both active and retired members. The benefits, benefit levels, and contribution rates are recommended annually by the City management as part of the budget process. Any changes in rate subsidies for retirees are approved by the City Council. 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.

Benefits Provided . . . The City provides post-employment medical, dental, and vision care benefits to its retirees. To be eligible for benefits, an employee must qualify for retirement under the TMRS or the Firemen's Fund. Retirees must make a one-time irrevocable decision to choose benefits at the time of retirement, after that their eligibility for the benefits ceases. However, retirees can move between plans and can add and drop dependents based on qualifying events.

All medical care benefits are provided through the City's self-insured health plan. The benefit levels are the same as those afforded to active employees.

Funding Policy . . . The plan premium rates are recommended annually by City management and approved by the City Council as part of the annual budget. The retiree's contribution is the full amount of the actuarially determined blended premium rate less a subsidy dependent upon years of service at retirement. By providing retirees with access to the City's healthcare plans based on the same rates it charges to active employees, the City is in effect providing a subsidy to retirees. This implied subsidy exists because, on average, retiree health care costs are higher than active employee healthcare costs. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through paying the higher rate for active employees each year. The City contributes \$40 per month for each five-year increment of service, up to \$200 per month, toward the cost of retiree coverage. The full cost for dental and vision is paid by the retiree. Retirees are required to enroll in Medicare Part B once eligible (age 65) and are moved into a fully-insured Medicare Supplement plan at that time. The same City contribution level applies to the supplement.

Annual OPEB Costs and Net OPEB Obligation . . . The City's OPEB cost for post-employment medical care is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The City's annual OPEB cost for post-employment medical care for the current year and the related information are as follows at September 30, 2017:

Annual required contribution	\$ 3,438,549
Interest on prior year net OPEB obligation	333,925
Adjustment to annual required contribution	(566,426)
Annual OPEB cost	3,206,048
Contributions made	(524,589)
Increase in net OPEB obligation	2,681,459
Net OPEB obligation - beginning of year	8,348,135
Net OPEB obligation - end of year	\$ 11,029,594
Percentage of OPEB costs contributed	16.4%

Funded Status and Funding Progress . . . The funded status of the plan as of the actuarial measurement date of December 31, 2015 was as follows:

Actuarial accrued liability	\$ 25,361,327
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 25,361,327
Funded ratio	0.0%
Covered payroll	\$ 98,668,427
Unfunded actuarial accrued liability as a percentage of covered payroll	25.7%

Three-Year Trend Information for OPEB Funding

	Fiscal Year Ended September 30,		
	2017	2016	2015
Annual OPEB Costs	\$ 3,206,048	\$ 3,279,833	\$ 1,716,639
Actual Contributions	\$ 524,589	\$ 630,522	\$ 671,072
Percent Contributed	16.4%	19.2%	39.1%
Net OPEB Obligations	\$ 11,029,594	\$ 8,348,135	\$ 5,698,824

The schedule of funding progress, presented as "Required Supplementary Information" (Exhibit XIII) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions . . . The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The Projected Unit Credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant method and assumptions used for this fiscal year valuation as shown on the following page were as follows:

Actuarial Assumptions

	12/31/15
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Amortization period	22 years, closed
Asset valuation method	N/A
Investment rate of return	4.0%, net of expenses
Inflation rate	2.5%
Payroll growth	N/A
Healthcare inflation rate	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years

Medical Reimbursements . . . The federal government may provide the city subsidy per the Medicare Part D Prescription Drug Subsidy Program for providing healthcare for Medicare eligible employees. As the City does not participate in these subsidies, any current and future year subsidies are not recognized as a reduction to the actuarial accrued liability.

FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET POSITION OF GOVERNMENTAL FUNDS

	Fiscal Year Ended September 30,				
<u>Revenues:</u>	2017	2016	2015	2014	2013
Program Revenue:					
Charges for Services	\$ 19,333,830	\$ 21,841,254	\$ 18,274,498	\$ 18,428,832	\$ 17,091,719
Operating Grants and Contributions	4,667,791	2,855,501	3,380,119	4,788,149	3,118,105
Capital Grants and Contributions	17,180,091	5,885,033	10,443,220	11,127,695	14,671,571
General Revenue:					
Property Tax	64,348,754	58,788,255	54,174,965	48,833,077	47,275,552
Sales Tax	36,841,137	32,624,297	30,601,965	27,764,114	26,522,473
Other Taxes/Fees	27,216,597	25,518,472	24,746,463	23,424,250	22,578,639
Miscellaneous	3,564,865	2,605,363	2,687,360	2,543,781	1,428,907
Total Revenue	<u>\$ 173,153,065</u>	<u>\$ 150,118,175</u>	<u>\$ 144,308,590</u>	<u>\$ 136,909,898</u>	<u>\$ 132,686,966</u>
<u>Expenditures:</u>					
General Government	\$ 40,761,972	\$ 33,847,052	\$ 31,260,126	\$ 30,476,840	\$ 27,686,735
Public Safety	68,546,557	63,118,516	58,132,146	56,893,859	52,906,985
Public Works	24,994,628	24,557,482	20,331,934	16,950,280	18,663,884
Parks and Recreation	16,792,417	16,043,697	14,982,742	14,543,461	13,714,245
Interest on Long-Term Debt	4,970,968	4,664,608	4,384,973	4,339,154	4,464,309
Total Expenses	<u>\$ 156,066,542</u>	<u>\$ 142,231,355</u>	<u>\$ 129,091,921</u>	<u>\$ 123,203,594</u>	<u>\$ 117,436,158</u>
Increase in Net Position before Transfers	\$ 17,086,523	\$ 7,886,820	\$ 15,216,669	\$ 13,706,304	\$ 15,250,808
Transfers	<u>916,940</u>	<u>1,184,433</u>	<u>1,140,938</u>	<u>876,525</u>	<u>(101,707)</u>
Increase (Decrease) in Net Position	\$ 18,003,463	\$ 9,071,253	\$ 16,357,607	\$ 14,582,829	\$ 15,149,101
Prior Period Adjustment	-	-	(39,247,319) ⁽¹⁾	(737,505)	-
Net Position at Beginning of Year	<u>155,426,031</u>	<u>146,354,778</u>	<u>169,244,490</u>	<u>155,399,166</u>	<u>140,250,065</u>
Net Position at End of Year ⁽²⁾	<u>\$ 173,429,494</u>	<u>\$ 155,426,031</u>	<u>\$ 146,354,778</u>	<u>\$ 169,244,490</u>	<u>\$ 155,399,166</u>

(1) Represents a net adjustment due to GASB 68, "Accounting and Financial Reporting for Pensions" and GASB 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date".

(2) Unrestricted net position, that part of the net position that may be used to meet the City's ongoing obligations, was (\$6,509,698) as of September 30, 2017. This table refers to governmental activities only and does not include enterprise funds such as solid waste or utility activities.

TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
<u>Revenues:</u>					
Taxes	\$ 81,040,432	\$ 73,316,697	\$ 68,844,155	\$ 61,779,192	\$ 59,278,152
Licenses and Permits	3,016,697	3,106,162	2,782,395	1,978,421	1,446,580
Franchise Fee	13,113,210	13,246,765	12,969,628	13,889,670	13,597,253
Fines and Forfeitures	3,646,487	3,767,796	3,721,677	4,539,209	4,229,107
Fees for Service	7,417,774	7,432,481	6,039,221	5,913,566	5,631,829
Interest Revenue	371,305	293,616	221,867	172,684	141,734
Intergovernmental	1,026,313	969,898	1,051,630	1,383,267	1,021,581
Miscellaneous	534,705	168,732	141,090	120,680	84,929
Total Revenues	<u>\$ 110,166,923</u>	<u>\$ 102,302,147</u>	<u>\$ 95,771,663</u>	<u>\$ 89,776,689</u>	<u>\$ 85,431,165</u>
<u>Expenditures:</u>					
General Government	\$ 27,131,242	\$ 26,651,405	\$ 24,694,516	\$ 23,337,639	\$ 21,067,238
Public Safety	57,921,901	55,724,427	52,739,309	50,949,715	49,622,237
Public Works	2,983,128	2,869,618	3,306,507	2,854,761	2,816,923
Parks and Recreation	11,893,750	11,875,804	11,209,486	10,891,862	10,579,066
Capital Outlay	580,588	519,325	572,876	573,903	616,199
Debt Service: Principal Retirement	50,052	45,880	-	-	-
Total Expenditures	<u>\$ 100,560,661</u>	<u>\$ 97,686,459</u>	<u>\$ 92,522,694</u>	<u>\$ 88,607,880</u>	<u>\$ 84,701,663</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 9,606,262	\$ 4,615,688	\$ 3,248,969	\$ 1,168,809	\$ 729,502
<u>Other Financing Sources (Uses):</u>					
Transfers In	\$ 73,690	\$ (3,981,877)	\$ 250	\$ -	\$ 2,600
Sale of Capital Assets	214,468	170,869	117,763	85,059	137,417
Transfers (Out)	(6,293,495)	-	(1,840,096)	(1,170,764)	(950,421)
Total Other Financing Sources (Uses)	<u>\$ (6,005,337)</u>	<u>\$ (3,811,008)</u>	<u>\$ (1,722,083)</u>	<u>\$ (1,085,705)</u>	<u>\$ (810,404)</u>
Net Changes in Fund Balances	\$ 3,600,925	\$ 804,680	\$ 1,526,886	\$ 83,104	\$ (80,902)
Fund Balances at Beginning of Year	<u>28,169,848</u>	<u>27,365,168</u>	<u>25,838,282</u>	<u>25,755,178</u>	<u>25,836,080</u>
Fund Balances at End of Year	<u>\$ 31,770,773</u>	<u>\$ 28,169,848</u>	<u>\$ 27,365,168</u>	<u>\$ 25,838,282</u>	<u>\$ 25,755,178</u>

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. 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 City monthly. In January 1994, the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for property tax reduction. In September 2003, the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for the Denton County Transportation Authority. The implementation of this tax began January 2004, and is allocated directly to the Denton County Transportation Authority.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2014	\$ 27,764,114	57.30%	\$0.3988	\$ 233
2015	30,601,965	57.01%	0.3943	253
2016	32,624,299	55.69%	0.3873	266
2017	36,841,137	57.54%	0.4041	295
2018 ⁽²⁾	15,123,554	22.76%	0.1464	119

(1) Source: City of Denton Annual Program of Services.

(2) Collections through April 1, 2018.

The sales tax breakdown for the City is as follows:

Property Tax Relief	0.50¢
Denton County Transportation Authority	0.50¢
City Sales & Use Tax	1.00¢
State Sales & Use Tax	6.25¢
Total	8.25¢

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the City conform to generally accepted accounting principles of the Governmental Accounting Standards Board and program standards adopted by the Government Finance Officers Association of the United States and Canada. The GFOA has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Denton for each fiscal year since 1983. The City's current report will be submitted to GFOA to determine its eligibility for another Certificate.

The City has also received the GFOA's award for Distinguished Budget Presentation each year since 1986.

The measurement focuses for the Enterprise Funds, Internal Service Funds and Nonexpendable Trust Funds are income determination and cost of service, respectively. Accordingly, the accrual basis, whereby revenues and expenses are identified in the accounting period in which they are earned and incurred and net income, is utilized for these funds. The modified accrual basis, whereby revenues are recognized when they become both measurable and available for use during the year and expenditures are recognized when the related fund liability is incurred, is used for all other funds.

Budgetary Procedures . . . As prescribed by City Charter, the City Manager, within the time period required by law, submits to the City Council a proposed budget for the fiscal year beginning the following October 1. The budget includes proposed expenditures and revenues required to fund the expenditures. Following Council considerations, amendments and refinements, a public hearing is ordered and conducted for the purpose of obtaining taxpayer comments. The budget is finally approved and adopted by passage of an ordinance by the City Council prior to the beginning of the fiscal year. The budget is adopted on a basis consistent with generally accepted accounting principles. It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund equal to 20% of budgeted expenditures. An additional 5% resiliency reserve (25% combined total) may be maintained to safeguard against unusual financial circumstances and/or economic downturns.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations, including letter 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 is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended (the "PFIA")) that are issued by or through an institution that either 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 City deposits, or are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State, (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) 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, and (12) 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 this paragraph, 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. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA-m or an equivalent by at least one nationally recognized rating service.

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

Political subdivisions such as the City are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, 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 City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City 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 City shall submit an investment report detailing: (1) the investment position of the City, (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 City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under Texas law the City 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 City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City'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 repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the entity'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 City.

TABLE 14- CURRENT INVESTMENTS ⁽¹⁾

As of March 31, 2018, the City's available funds were invested as follows:

Description	Market Value Percent	Market Value	Book Value
Treasury Securities - Coupon	2.78%	\$ 16,849,721	\$ 16,958,860
Federal Agency Issues - Coupon	49.62%	300,242,599	302,771,196
Federal Agency Issues - Callable	3.37%	20,407,680	20,756,505
Municipal Bonds - Coupon	2.38%	14,379,250	14,500,000
CDs - CDARS ⁽²⁾	8.10%	49,000,000	49,000,000
CDs - SLOC ⁽³⁾	12.73%	77,000,000	77,000,000
Commercial Paper Disc. - Amortizing	5.94%	35,913,524	35,933,413
Local Government Inv. Pool-TexSTAR	9.64%	58,324,172	58,324,172
Insured Cash Sweep Savings Deposit	4.13%	25,000,000	25,000,000
Demand Deposits/Wells Fargo ⁽⁴⁾	1.31%	7,935,814	7,935,814
	<u>100.00%</u>	<u>\$ 605,052,760</u>	<u>\$ 608,179,960</u>

(1) There are no City funds invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index or commodity.

(2) Fully insured by FDIC.

(3) Insured up to the FDIC limit with uninsured amounts backed by a Federal Home Loan Bank standby letter of credit.

(4) Insured up to the FDIC limit with uninsured amounts collateralized by U.S. federal agency securities at a minimum of 102% of principal plus accrued interest.

TAX MATTERS

OPINIONS

The Bonds . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C – Forms of Bond Counsel's Opinions.

The Certificates . . . On the date of initial delivery of the Certificates, Bond Counsel to the City will render its opinion that, in accordance with Existing Law, (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C – Forms of Bond Counsel's Opinions.

In rendering each of the foregoing opinions, Bond Counsel to the City will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate with respect to each Obligation issue, and (b) covenants of the City contained in the Obligation documents relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the property financed or refinanced therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Obligations to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Obligations in order for interest on the Obligations to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Obligations to be included in gross income retroactively to the date of issuance of the Obligations. The opinion of Bond Counsel to the City is conditioned on compliance by the City with such requirements, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Obligations.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Obligations.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Obligations or the projects being financed or refinanced therewith. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Obligations, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders of the Obligations may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

The initial public offering price to be paid for one or more maturities of the Obligations may be less than the principal amount thereof or one or more periods for the payment of interest on the Obligations may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Obligations less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond 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 Obligations 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 Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Obligations. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE RECENTLY ENACTED LEGISLATION OR PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Obligations, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Obligations, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Obligations under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Obligations will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FUTURE AND PROPOSED LEGISLATION

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Obligations under Federal or state law and could affect the market price or marketability of the Obligations. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Obligations should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE OF INFORMATION

In each of the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the respective series of Obligations. The City is required to observe each agreement while it remains obligated to advance funds to pay such Obligations. Under each agreement, the City will be obligated to provide certain updated financial information and operating data annually, and the timely notice of specified events to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City shall provide annually to the MSRB, in the electronic format prescribed by the MSRB, financial information and operating data (the "Annual Operating Report") with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 14. The City will additionally provide financial statements of the City (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in the City's annual audited financial statements or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in this Official Statement and (ii) audited, if the City commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The City will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2018. The City may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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 City's current fiscal year end is September 30. Accordingly, it must provide the Annual Operating Report by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Obligations 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 Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

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

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

The City may amend its continuing disclosure agreement for either or both of the Bonds and Certificates 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 City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds or Certificates, as the case may be, 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 Bonds or Certificates, as the case may be, consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds or Certificates, as the case may be. The City 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 Obligations in the primary offering of the Obligations. If the City 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 . . . During the last five years, the City believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12. However, there was one instance in 2014 where a bond insurer's credit rating was upgraded above the underlying rating on the insured bonds, and the City did not file a Notice of Material Event for the rating change until 94 days after the bond insurer's rating change.

OTHER INFORMATION

RATINGS

The Obligations and the presently outstanding tax supported debt of the City are rated "AA+" by Fitch and "AA+" 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 City 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 Obligations.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending, or to their knowledge threatened, litigation or other proceeding against the City that could have a material adverse financial impact upon the City or its operations over and above those already disclosed in the City's Comprehensive Annual Financial Report, see Appendix B, Notes V.G., page 77.

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

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

The Obligations. Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments, investment securities 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. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

The Certificates. Section 271.051, Texas Local Government Code, provides that the Certificates are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, trustees and guardians, and for the sinking funds of municipalities, school districts, and other political subdivisions or public agencies of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the State, municipalities, school districts, and other political subdivisions of the State, and are legal security for those deposits to the extent of their market value.

General Considerations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Obligations may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. The City has made no investigation of other laws, rules, regulations, or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds and of the Certificates, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Bond and the Initial Certificate and to the effect that the Bonds and the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Bonds and the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, 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 Obligations, or which would affect the provision made for their payment or security or in any manner questioning the validity of said Obligations will also be furnished. Though it represents the Financial Advisor and purchasers of debt from governmental issuers from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Obligations. 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 Obligations in the Official Statement to verify that such description conforms to the provisions of the Bond Ordinance and the Certificate Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

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

INITIAL PURCHASER OF THE BONDS

After requesting competitive bids for the Bonds, the City accepted the bid of (the "Initial Purchaser of the Bonds") to purchase the Bonds at the interest rates shown on page 4 of the Official Statement at a price of par plus a cash premium of \$_____.

The Initial Purchaser of the Bonds can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser of the Bonds. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser of the Bonds.

INITIAL PURCHASER OF THE CERTIFICATES

After requesting competitive bids for the Certificates, the City accepted the bid of (the "Initial Purchaser of the Certificates") to purchase the Certificates at the interest rates shown on page 2 of the Official Statement at a price of par plus a cash premium of \$_____. 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 City to the Initial Purchaser of the Certificates. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser of the Certificates.

The Initial Purchaser of the Bonds and the Initial Purchaser of the Certificates are herein collectively referred to as the "Initial Purchasers".

CERTIFICATION OF THE OFFICIAL STATEMENT

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

LINKS TO WEBSITES

The City has provided links to websites in this Official Statement to allow investors independent access to information or expertise that may be of value. INFORMATION ON SUCH WEBSITES IS NOT INCORPORATED INTO THIS OFFICIAL STATEMENT BY REFERENCE OR OTHERWISE. The inclusion of any links does not imply a recommendation or endorsement of the information or views expressed within a website. The City has not participated in the preparation, compilation or selection of information or views in any website referenced in this Official Statement, and assumes no responsibility or liability for the information or views, or accuracy or completeness thereof, in any website referenced herein.

MISCELLANEOUS

The Ordinances authorizing the issuance of the Obligations will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and will authorize its further use in the reoffering of the Obligations by the Initial Purchasers.

PRICING OFFICER
City of Denton, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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March 2, 2018

The Honorable Mayor and Members of the City Council
City of Denton
Denton, Texas

It is with great pleasure that we present to you a copy of the Comprehensive Annual Financial Report (CAFR) of the City of Denton (the City) for the fiscal year ended September 30, 2017. The purpose of the report is to provide the City Council, management, citizens, and other interested parties with detailed information concerning the City's financial condition.

THE REPORT

The Texas Local Government Code (§ 103.001) requires an annual audit for municipalities. In addition, the City Charter (Section 2.13) requires a Certified Public Accountant who, as of the end of the fiscal year, shall make an "independent audit of accounts" and prepare a report to the City Council and the City Manager. This document fulfills the above mentioned requirements, and the independent auditor's opinion is included in the report for the fiscal year ended September 30, 2017.

The CAFR is presented in three main sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The Financial Section includes the Management's Discussion and Analysis (MD&A), Basic Financial Statements, Required Supplementary Information, Combining and Individual Fund Financial Statements, along with the independent auditors' report. The Statistical Section and Other Supplementary Information include selected financial and demographic information, generally presented on a multi-year basis.

The responsibility for both the accuracy of the presented information and the completeness and fairness of the presentation of the data, including all disclosures, rests with the City, and is based upon a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the results of our operations in each of the various funds reported by the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The accounting firm of Pattillo, Brown & Hill L.L.P. has issued an unmodified opinion on the City of Denton's financial statements for the period ended September 30, 2017. As a recipient of federal and state grant awards, a separate audit is prepared to meet the requirements of the Single Audit Act Amendments of 1996 and related Uniform Guidance. As a part of the City's single audit, tests are conducted to determine that the City has complied with applicable laws and regulations related to federal awards.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

Originally incorporated on September 26, 1866, the City of Denton is now 98.818 square miles and has an estimated population of 124,988. The City is a home rule city and operates under the Council-Manager form of government. The elected seven-member council consists of a Mayor and six Council Members. The Mayor and two Council Members are elected at large, while the remaining representatives are elected from single member

OUR CORE VALUES

Integrity • Fiscal Responsibility • Transparency • Outstanding Customer Service

districts. The City Council enacts local laws, determines policy, and adopts the annual budget, and the City Manager is the chief executive officer for the City.

The City of Denton is located in the northern portion of the Dallas/Fort Worth Consolidated Metropolitan Statistical Area (CMSA). The City is a part of the Dallas/Fort Worth Metroplex, and is situated at the apex of a triangle based by Dallas (37 miles to the southeast) and Fort Worth (35 miles to the southwest) providing excellent access to and from all parts of the area.

The City provides a full range of general government services to its citizens including: public safety (police and fire protection); public works (construction and maintenance of highways, streets and infrastructure); parks and recreation; library; planning and zoning; economic development; and general administrative services. The City's enterprise fund operations consist of a utility system, solid waste, and airport operations. The City's utility system provides electric, water and wastewater services.

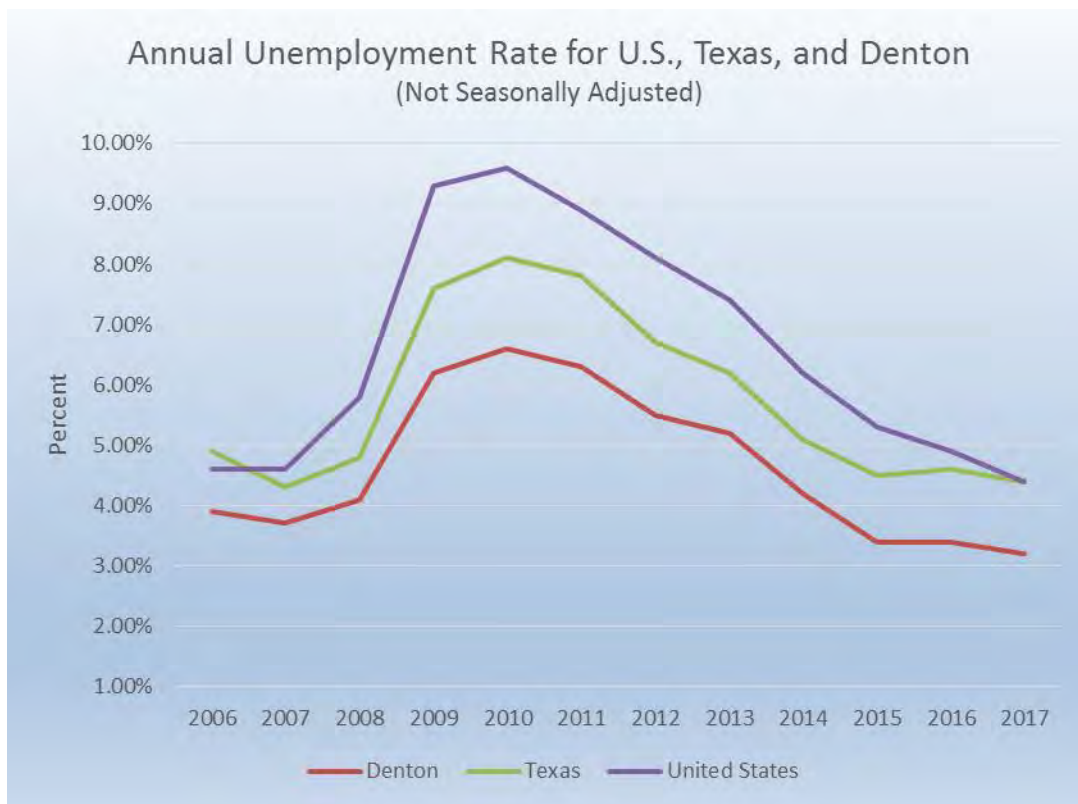
The internal service operations consist of the Materials Management, Fleet Services, Risk Retention, Health Insurance, Engineering Services, and Technology Services funds. The Materials Management Fund accounts for the financing of Warehouse and Purchasing services which are provided to other City departments. The Fleet Services Fund accounts for the financing of goods and services provided by the municipal garage to other departments within the City. The Risk Retention Fund accounts for the accumulation of resources for the payment of workers' compensation, general liability claims, and insurance policies. The Health Insurance Fund accounts for administration of the self-insurance program for health coverage in the City. The Engineering Services Fund accounts for the provision of internal engineering services to various City operations and capital projects. The Technology Services Fund provides support for the various information and computer systems within the City. The financial statements presented include all government activities, organizations, and functions for which the City is financially accountable as defined by the Governmental Accounting Standards Board (GASB).

LOCAL ECONOMY

The City of Denton's tax base continues to grow with an average growth rate of 5.61% over the last 10 years. Recently, the City's tax base grew by 8.54% in FY 2015-16, 8.38% in FY 2016-17 and 13.57% in FY 2017-18. After property tax revenues, the second largest source of revenue in the General Fund is sales tax. Representing approximately 33% of overall revenue in the General Fund, sales tax is a significant revenue source that is dependent upon a variety of economic factors. For FY 2016-17, total sales tax revenues equaled \$36,841,137, which is \$4,216,840 or 12.9%, more than the prior year collections of \$32,624,297. For FY 2017-18, sales tax collections are conservatively budgeted to decrease by 1.8% over FY 2016-17 actual receipts.

Increased strength in employment and growth in new residential and commercial construction are leading indicators of continued growth in the City's property tax base and sales tax collections. The City of Denton's not seasonally adjusted annual unemployment average rate remains below state and national levels at 3.2 percent in 2017 which is a 0.2 decrease from 2016. The City of Denton has issued 927 new residential and commercial building permits for calendar year 2017, with an estimated value of \$515 million on all 2017 permits. This compares to a total of 618 commercial and residential permits issued for calendar year 2016 and an estimated value of \$388 million.

The following two charts highlight the strength of the local economy over the last ten years by displaying the City of Denton's unemployment rate compared to Texas and the United States and the taxable property values per capita in the City of Denton.



Fiscal year 2016-17 brought exciting news in economic development. Listed below are just a few of the highlights:

- The Rayzor Ranch mixed-use development is located on both the north and south sides of US Highway 380 in Denton. Rayzor Ranch Marketplace, on the north side of the development, has constructed over 400,000 square feet of retail and commercial space. Sam's Club and Wal-Mart anchor the Market Place with 137,381 and 189,929 square feet, respectively. The southern portion of this development continues to expand with new tenants under construction such as Alamo Drafthouse, Rooms To Go, Andy B's Entertainment and Bowling Center, Cheddars Scratch Kitchen and Zoës Kitchen. These new tenants join WinCo Foods, Chili's, Raising Canes, Chipotle, Firehouse Subs, Sleep Number Beds, Luxe Nail Salon and In-N-Out Burger. These new and existing tenants join with the Embassy Suites Hotel and convention center described in more detail in the next paragraph.
- O'Reilly Hotel Partners Denton (OHPD) opened the 70,000-square-foot convention center, 300-room Embassy Suites Hotel, and Houlihan's restaurant project in January, 2018. As a major anchor for the Rayzor Ranch Town Center, the project will capitalize on the planned shopping, entertainment, and restaurants located nearby. The privately managed convention center is expected to expand the City's convention business and overall tourism industry.
- The City's airport is expanding by adding a 5,000 foot long, 75-foot wide second runway. This project is funded by the City and a grant by the Texas Department of Transportation – Aviation Division. The runway is expected to begin construction in April, 2018 and be completed in nine months. This will significantly expand the capacity of the Denton airport which is currently the seventh busiest airport in Texas and the number one general aviation airport in the state.
- The North Central Texas College (NCTC) is moving forward with plans to open a new campus location in downtown Denton. The planned facility would be approximately 45,000 square feet with classrooms for 2,500 students. The plans also include a four-story parking garage with 350 spaces. NCTC has a partnership with the University of North Texas and Texas Woman's University that allows students to transfer without losing credits and also gives student the opportunity to be concurrently enrolled at all three institutions.
- The City has entered into a new and exciting agreement for management of Stoke, Denton's coworking space housed in a downtown transit-oriented mixed use development. Stoke is an economic development project of the City of Denton which is designed to support local entrepreneurship and technological innovation. The new manager is Hickory & Rail Ventures, LLC run by a local Denton entrepreneur who also cofounded a satellite software company. The new management company has partnerships with the University of North Texas as well as investor networks for local entrepreneurs.
- WinCo Foods, an employee owned supermarket company with stores in eight states in the western U.S., has constructed and occupied an 850,000-square-foot regional distribution facility in Denton's Westpark Industrial Park. This facility employs approximately 165 employees and has an annual payroll of about \$7.2 million.

LONG-TERM FINANCIAL PLANNING

In conjunction with this document, interested parties are encouraged to read the City of Denton's FY 2017-18 Annual Budget document. This document details the City's strategic plan, long-term financial policies, program accomplishments, and other key initiatives. The document also includes the long-term financial forecasts for each of the major funds, and a summary of the assumptions that are included in these plans. In addition, the budget document provides an overview of the adopted Capital Improvement Program and planned future debt issuances. The budget document can be obtained from the City of Denton's Finance Department by calling (940) 349-8260. The Annual Budget can also be accessed through the City's web site at www.cityofdenton.com and selecting Financial Transparency under the "Open Government" link.

RELEVANT FINANCIAL POLICIES

The City of Denton maintains reserve balances for emergencies. In the General Fund, the target reserve level is a minimum of 20% of budgeted expenditures with an additional 5% resiliency reserve for a combined total of 25% to provide stability and flexibility for the organization. The actual reserve level has exceeded this target for the current fiscal year. As described in the accompanying CAFR document, the unassigned fund balance is \$31.8 million, or 26.7%, of the budgeted General Fund expenditures for the fiscal year ended September 30, 2017.

Beginning in FY 2011-12, the City adopted a policy which requires a minimum ending working capital balance (current assets minus current liabilities) of at least 8% of budgeted expenditures for the Electric, Water, Wastewater and Solid Waste Funds. If the working capital level should fall below the desired minimum, the City will implement necessary corrective action with a five-year plan to restore the working capital balance to 8% of budgeted expenditures.

Additionally, rate reserve levels were established for the Electric, Water, Wastewater, and Solid Waste Funds in FY 2011-12 according to the unique operational aspects of each utility. The rate reserve levels were most recently revised in FY 2015-16 based on the factors of revenue stability, expense and demand volatility, infrastructure age, debt levels and management plans for the use of these reserves. The rate reserve level is established at a range of 8% to 12% of expenses for the Electric Fund, at a range of 20% to 31% of expenses for the Wastewater Fund, at a range of 25% to 42% of expenses for the Water Fund, and at a range of 6% to 10% of expenses for the Solid Waste Fund. If the rate reserve level falls below the range, the City will implement necessary corrective action within a five-year plan to restore the balances to the levels outlined above.

The City of Denton has adopted an Investment Policy which guides the investment of all City funds. In accordance with State law, the policy is reviewed annually by the City Council to ensure that public funds are being invested in a conservative and prudent fashion. In addition, the City also annually reviews and approves a Debt Management policy. The purpose of this policy is to provide general guidelines regarding the issuance of City debt and the use and limitation of such debt. The City complied with all aspects of the Investment and Debt Management policies during FY 2016-17.

MAJOR INITIATIVES

In FY 2016-17, the City continued to emphasize street maintenance and repair activities as funding in the Street Improvement Fund was increased by \$1,850,360. This additional funding was used for an additional five member street maintenance crew and equipment, as well as additional funding for base failure maintenance, overlay materials, and micro seal activities. In addition to improving the City's street infrastructure, the enhancement of public safety is also identified in the Strategic Plan as a major initiative. Accordingly, the FY 2016-17 General Fund budget included \$2,641,808 in funding enhancements for public safety programs. These enhancements included the funding of a new medic unit (six new personnel) at Fire Station 8, breathing apparatus replacements and a Fire Training Captain position. Funding was also included in the Police Department for the addition of one Lieutenant, four Patrol Officers, two Motorcycle Officers, five additional 9-1-1 dispatchers, and an additional position in the animal services division.

Employee compensation remained a continuing priority for FY 2016-17 with an average 3% merit increase provided to all employees along with eligible step increases for all police and fire civil service personnel. Another major funding priority was \$813,045 of one-time capital expenditures from the Traffic Safety Fund. These expenditures included the replacement of one traffic signal, additional downtown sidewalk improvements, intersection radar detection equipment, traffic signal pre-emption improvements and ADA intersection improvements for five pedestrian crossings.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers' Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2016, for the thirty second consecutive year. In order to be awarded the Certificate of Achievement in Financial Reporting, the City must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report satisfies both generally accepted accounting principles and applicable legal requirements. The Certificate of Achievement is held for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The City also received the GFOA award for Distinguished Budget Presentation for its fiscal year 2016-17 Annual Budget for the thirty first consecutive year. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged according to its compliance with specific guidelines established by GFOA. These guidelines help ensure that Denton's budget is distinguished as an operations guide, financial plan, policy document, and communications device. The City has submitted its fiscal year 2017-18 Annual Budget to GFOA to determine its eligibility for another certificate. We believe it continues to meet the Distinguished Budget Presentation Award criteria.

In 2017, the City's Purchasing Department earned the Excellence in Procurement Award from the National Purchasing Institute, Inc. (NPI) for the nineteenth year in a row. This award is achieved by those organizations that demonstrate excellence in procurement by achieving a high score on standardized criteria designed to measure innovation, professionalism, productivity, and leadership. NPI represents purchasing officials employed by national, state, and local governments; educational institutions; and tax-supported and public entities throughout the country.

We would like to thank the City Council for their strong leadership and support that helped make the presentation of this report possible. We would also like to thank the City Manager, Finance staff, department directors, division heads and especially the Accounting Division staff for their diligent efforts in the preparation of the annual financial report.



Bryan Langley
Deputy City Manager



Antonio Puente, Jr.
Director of Finance

APPENDIX B

EXCERPTS FROM THE
CITY OF DENTON, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

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

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Denton, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Denton, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual fund financial statements and schedules and the capital assets schedules are the responsibility of management and was 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 and the capital assets schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2018 on our consideration of the City of Denton, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Denton, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 2, 2018



**CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

The Management's Discussion and Analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Transmittal Letter (beginning on page i) and the City's financial statements (beginning on page 15).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2017 by \$832,938,794 (net position). Of this amount, \$138,682,191 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position on the statement of net position increased by \$57,055,549 in fiscal year 2017.
- As of September 30, 2017, the City's governmental funds reported combined fund balances of \$141,964,748, an increase of \$17,214,949 in comparison with the prior fiscal year. Compared to the prior year, revenues were higher by \$16.2 million due primarily to higher property tax of \$5.5 million, sales tax of \$4.2 million, franchise fees of \$1.6 million, intergovernmental revenues of \$4.4 million, investment revenue of \$0.3 million, and miscellaneous revenue of \$1.0 million. The higher revenues were offset by lower fees for service of \$0.5 million, and fines and forfeitures of \$0.4 million. Expenditures reflect higher costs for public safety of \$2.1 million, higher costs for general government of \$0.3 million, higher costs for parks and recreation of \$0.2 million, higher cost for public works expenses of \$4.3 million, and higher capital expenditures of \$13.2 million. Total expenditures of the City's combined governmental funds are \$20.6 million higher than the prior year. New proceeds from the issuance of long-term debt added \$33.4 million in new funding. Net transfers decreased by \$0.7 million, from \$1.6 million in fiscal year 2016, to \$0.9 million in fiscal year 2017. Approximately 20.3% of the \$141,964,748, or \$28,828,396, is available for spending at the government's discretion (unassigned fund balance)
- The City's total noncurrent liabilities, including other noncurrent liabilities, increased by \$301,101,497 during the fiscal year. The primary reasons for the changes are the issuance of \$29.1 million of general obligation refunding and improvement bonds, \$90.8 million of certificates of obligation, and the issuance of \$214.9 million of utility revenue bonds, offset by the normal pay down of general obligation bonds and certificates of obligation of \$46.0 million. The general obligation refunding bonds refunded \$13.0 million of general obligation bonds. In addition to issuance and pay down of debt, the City's total noncurrent liabilities for pensions decreased by \$1.5 million while other post-employment benefit obligations increased by \$2.7 million. Additional information on the City's long-term debt can be found in note IV. G. on pages 53 - 57 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave). Both the statement of net position and the statement of activities are prepared using the accrual basis of accounting as opposed to the modified accrual basis.

In the Statement of Net Position and the Statement of Activities, the City is divided between two kinds of activities:

- **Governmental activities.** Most of the City's basic services are reported here, including police, fire, libraries, development, public services and operations, public works, building inspection, technology services and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.
- **Business-type activities.** The City charges a fee to customers to cover the cost of services it provides. The City's utility systems (electric, water and wastewater), solid waste, and airport activities are reported here. The government-wide financial statements can be found on pages 15 - 17 of the report.

Fund Financial Statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other monies. The below illustration summarizes the major features the City's financial statements.

Major Features of City of Denton's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	Activities of the City that are not proprietary, such as police, fire and parks	Activities the City operates similar to private businesses: electric, water, wastewater utilities, solid waste and airport operations
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures and changes in fund balances	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
Types 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

All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

- **Governmental funds.** The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of Denton maintains twelve governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for eight of these non-major governmental funds, along with an aggregate of all other governmental funds, is provided in the form of combining statements elsewhere in this report.

- **Proprietary funds.** The City charges customers for certain services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are similar to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows. The internal service funds (the other component of proprietary funds) are utilized to report activities that provide supplies and services for the City's other programs and activities, such as the City's municipal warehouse, the City's self-insurance fund, and the City's equipment maintenance function. Because these services benefit both governmental and business-type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

The City of Denton maintains five enterprise funds. The City uses enterprise funds to account for its electric, water, wastewater, solid waste, and airport operations. The funds provide the same type of information as the government-wide financial statements, only in more detail and include the internal service fund-type activity. The City considers all enterprise funds to be major funds.

- **Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are a component of fiduciary funds. Agency funds differ from other fiduciary funds in that they do not typically involve a formal trust agreement. Agency funds are used to account for situations where the City's role is purely custodial, such as receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations, or other governments.

The City maintains one fiduciary fund, an agency fund. The City uses agency funds to account for the collection and payment of property and evidence, temporary developer holdings and other similar relationships.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 - 78 of this report.

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As of September 30, 2017, the City's combined net position were \$832,938,794, of which \$173,429,494 can be attributed to governmental activities and \$659,509,300 attributed to business-type activities. This analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

The largest portion of the City's net position (80.2%) reflects its investment in capital assets (e.g., land, building, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 268,812	\$ 228,329	\$ 541,416	\$ 411,484	\$ 810,228	\$ 639,813
Capital assets, net of accumulated depreciation	266,657	237,091	1,081,445	867,834	1,348,102	1,104,925
Total assets	<u>535,469</u>	<u>465,420</u>	<u>1,622,861</u>	<u>1,279,318</u>	<u>2,158,330</u>	<u>1,744,738</u>
Deferred outflows of resources	26,540	31,094	15,437	17,949	41,977	49,043
Long-term liabilities outstanding	246,484	223,907	883,259	604,736	1,129,743	828,643
Other liabilities	137,843	114,351	95,004	71,384	232,847	185,735
Total liabilities	<u>384,327</u>	<u>338,258</u>	<u>978,263</u>	<u>676,120</u>	<u>1,362,590</u>	<u>1,014,378</u>
Deferred inflows of resources	4,253	2,830	526	690	4,779	3,520
Net position:						
Net investment in capital assets	165,408	145,310	502,801	460,330	668,209	605,640
Restricted	14,531	13,737	11,516	8,892	26,047	22,629
Unrestricted	(6,510)	(3,621)	145,192	151,235	138,682	147,614
Total net position	<u>\$ 173,429</u>	<u>\$ 155,426</u>	<u>\$ 659,509</u>	<u>\$ 620,457</u>	<u>\$ 832,938</u>	<u>\$ 775,883</u>

Governmental activities increased the City's net position by \$18,003,463. Business-type activities increased the City's net position by \$39,052,086. The key elements of these increases are contained in Table 2.

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

Table 2
Changes in Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	\$ 19,334	\$ 21,841	\$ 282,063	\$ 268,793	\$ 301,397	\$ 290,634
Operating grants and contributions	4,668	2,856	-	-	4,668	2,856
Capital grants and contributions	17,180	5,885	20,348	7,705	37,528	13,590
General Revenues:						
Property tax	64,349	58,788	-	-	64,349	58,788
Sales tax	36,841	32,624	-	-	36,841	32,624
Franchise tax	24,211	22,659	-	-	24,211	22,659
Hotel occupancy tax	2,374	2,243	-	-	2,374	2,243
Beverage tax	618	597	-	-	618	597
Bingo tax	14	19	-	-	14	19
Investment Income	1,330	1,020	3,472	2,010	4,802	3,030
Miscellaneous	2,234	1,586	384	1,198	2,618	2,784
Total revenues	173,153	150,118	306,267	279,706	479,420	429,824
Expenses:						
General government	40,762	33,847	-	-	40,762	33,847
Public safety	68,547	63,118	-	-	68,547	63,118
Public works	24,994	24,557	-	-	24,994	24,557
Parks and recreation	16,793	16,044	-	-	16,793	16,044
Interest on long-term debt	4,971	4,665	-	-	4,971	4,665
Electric	-	-	174,901	145,964	174,901	145,964
Water	-	-	28,203	26,001	28,203	26,001
Wastewater	-	-	26,730	23,921	26,730	23,921
Solid waste	-	-	34,533	29,435	34,533	29,435
Airport	-	-	1,931	2,537	1,931	2,537
Total expenses	156,067	142,231	266,298	227,858	422,365	370,089
Increase in net position before transfers	17,086	7,887	39,969	51,848	57,055	59,735
Transfers	917	1,184	(917)	(1,184)	-	-
Increase in net position	18,003	9,071	39,052	50,664	57,055	59,735
Net position at beginning of year	155,426	146,355	620,457	569,793	775,883	716,148
Net position at end of year	\$ 173,429	\$ 155,426	\$ 659,509	\$ 620,457	\$ 832,938	\$ 775,883

Governmental activities. Expenses for the governmental activities reflects an increase of \$6.9 million in general government, an increase of \$5.4 million in public safety, a \$0.4 million increase in public works, and a \$0.7 million increase in parks and recreation. The most significant governmental activities expense was in providing public safety, which incurred expenses of \$68,546,557. The most significant portion of public safety is the cost of personnel, which totaled \$54,136,532. Governmental activities expense also includes general government, which incurred \$40,761,972 in expenses, of which \$17,008,730 represented personnel charges.

These expenses were funded by revenues collected from a variety of sources, with the largest being from property taxes, which are \$64,348,754 for the fiscal year ended September 30, 2017. The \$10.6 million increase in the governmental program revenues are mainly due to an increase of \$10.4 million in capital grants and contributions for public works and a \$1.1 million increase for parks and recreations, offset by charges for services decrease of

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

\$0.7 million for General government, \$1.1 million decreased for public safety and a decreased \$0.9 million for parks and recreation. Total operating grants and contributions increased by \$1.8 million for general government, public safety and parks and recreation. Governmental general revenues included an increase of \$5.6 million for property tax due to rising values and an increase of \$4.2 million for sales tax due to an improving economy. Transfers reflect a \$0.9 transfer into governmental activities for the current year as compared to a transfer in of \$1.1 million for the prior fiscal year.

Business-type activities. Business-type activities increased the City's net position by \$39,052,086, accounting for 68.4% of the growth in the entity-wide net position. All Utility service revenues increased by a total of \$12.6 million. Electric charges for services increased by \$5.9 million. Water charges for services increased by \$2.9 million as compared to the service charges from prior year. Wastewater charges provided \$1.2 million of the increase. Solid Waste charges for service provided an additional \$2.5 million. Airport charges for goods and services increased by \$0.2 million as compared to service charges from the prior year. Water and Wastewater collected \$5.0 million and \$2.4 million in impact fees, respectively, reflecting a \$0.1 million increase over the prior year. Capital contributions, which arise from new property development within the City, represent a major revenue source for the Water, Wastewater, and Airport during the current fiscal year, producing an additional \$12.6 million in revenue compared to the prior year. The Airport gas well revenues contributed an additional \$0.6 million to the increase in net position, an increase of \$0.1 million from the prior year. Total enterprise funds operating costs, before depreciation, increased by \$21.4 million. Electric expenses reflect an increase of costs related to purchase power costs of \$15.0 million and administrative cost of \$1.0 million. Water expenses reflect \$0.5 million in increased costs for personal services and \$0.2 million for repairs and \$0.1 million for administrative costs. Wastewater expenses reflect an increase for materials and supplies of \$0.2 million, and administrative costs of \$0.1 million. Solid Waste operations expenses reflect an increased costs for personal services of \$0.8 million, administrative costs of \$0.1 million, and closure/post closure costs of \$2.2 million due to a new engineering study of the closure costs associated with the landfill expansion. Airport operations expenses reflect a \$0.5 million decrease in debt service costs and a \$0.1 million decrease in personnel costs.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$142.0 million, an increase of \$17.2 million in comparison with the prior year. Approximately \$28.8 million constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance has been classified to indicate that it is not available for new spending because it has already been classified as restricted (\$89.8 million), committed (\$8.5 million), and assigned (\$14.8 million).

The General Fund is the chief operating fund of the City. At September 30, 2017, the unassigned fund balance of the General Fund was \$31.8 million, or 26.7% of budgeted general fund expenditures. The General Fund's ending fund balance increased by \$3.6 million during the current fiscal year. The change in fund balance is due to expenditures, including other financing uses, of \$106.9 million, and revenues, including other financing sources, of \$110.5 million. Revenues were \$8.0 million higher compared to the previous year primarily due to increased taxes of \$7.7 million, intergovernmental revenues of \$0.1 million, and investment revenue of \$0.1 million. The net change in expenditures was \$5.2 million higher as compared to the previous year primarily due to increased costs related to personal services, operations, and transfers out. The increased personnel costs accounted for \$1.9 million, of which public safety accounted for all of the personnel costs. The increased operations costs of \$1.0 million over the prior year is related to an increase of general government in the amount

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

of \$0.7 million, public safety in the amount of \$0.2 million, and public works in the amount of \$0.1 million. The increased transfers out of \$0.5 is due to increased transfers to capital projects.

Personnel costs, on a year over year comparison, were higher due to an average merit increase of 3% for non-civil service employees, a pay adjustment for civil service employees to reach the market average plus 5% and continued step raises for public safety civil service employees. Additional personnel costs included equity adjustments for employees whose salary was below the market rate for their positions. During the fiscal year 20 FTE's were added to public safety, and 13.6 FTE's were added to neighborhood and community services in general government.

At the end of the fiscal year, the capital projects fund has a total fund balance of \$89.4 million, an increase of \$14.2 million. The total fund balance is made up of \$74.5 million in restricted funds and \$14.8 million in assigned funds, all for capital construction and acquisition. In 2017, the City received \$35.9 million of proceeds from the issuance of debt and recognized \$5.6 million of regional toll revenues from the Texas Department of Transportation, while expending \$36.8 million on construction and acquisition. In addition, the capital projects fund received \$0.6 million in interest income, \$0.1 million from the sale of fixed assets and insurance recoveries, and \$9.1 million of transfers from other funding sources. The City also received approximately \$5.9 million more in developer's contributed capital than in the prior year for a total of \$9.4 million recorded in the government-wide financial statements.

The debt service fund has a total fund balance of \$5.4 million, all of which is restricted for the payment of debt service. As compared with the prior year results, the overall increase in the debt service fund balance of \$0.5 million resulted from an increase of \$2.0 million in tax revenue offset by an increase of \$1.5 million in principal and interest costs. Additional amounts include a reduction from the prior year of a \$1.5 million of premiums on debt issuance, a reduction of \$1.5 million in the refunding bonds issued and the payments to refunded bond escrow agent, and a reduction of transfers in by \$0.1 million.

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

Unrestricted net position at September 30, 2017 in proprietary funds are \$47.8 million for Electric, \$44.9 million for Water, \$38.0 million for Wastewater, \$2.8 million for Solid Waste, and \$2.9 million for the Airport Fund. The results reflect an decrease of the unrestricted net position in the Electric Fund of \$15.0 million, while increases were reflected in the Water fund of \$4.7 million, the Wastewater fund of \$6.0 million, the Solid Waste fund of \$0.6 million, and a the Airport fund of \$0.1 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Denton's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2017, three formal amendments to adjust the City's of Denton Annual Program of Services was approved by Council for the General Fund. Council approved funding to provide for additional improvements, equipment and other expenses. The additional funds increased the General Fund by \$4.6 million, the Electric Fund for higher power purchase costs by \$13.0 million, the Downtown Reinvestment Fund and the Library Donation Fund by \$20,000 each, and the Tourist and Convention Fund by \$0.2 million.

GENERAL FUND BUDGET TO ACTUAL HIGHLIGHT

For fiscal year 2017, General Fund actual expenditures (including transfers) on a budgetary basis were \$115.2 million compared to the final budget of \$119.0 million. The \$3.8 million positive expenditure variance was primarily due to reduced costs of \$2.7 million in personnel, \$0.3 million in materials, \$0.1 in maintenance and \$0.7 million in insurance costs.

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

The personnel savings is due to reduced costs of \$0.5 million in general government, \$1.5 million in public safety, \$0.1 million in public works and \$0.6 million in parks and recreation. In addition to personnel savings, general government, public safety, and parks and recreation also saw a combined reduced costs of \$0.7 million in insurance costs. Parks and recreation experienced additional reduced costs of \$0.3 million in materials and repair costs. General government experienced a positive \$0.1 variance of lower than budgeted transfers out.

Actual revenues for the General Fund (including transfers and sale of capital asset) on a budgetary basis were \$118.8 million compared to the final budget of \$114.4 million. Of the \$4.4 million revenue variance, approximately \$4.0 million of the positive revenue variance is due to greater than budgeted sales tax revenue, a \$0.6 million positive revenue variance for ad valorem tax, a \$0.3 million negative revenue variance for fees for service, a \$0.5 million negative revenue variance for fines and forfeitures, a \$0.2 million negative revenue variance for franchise fees, and a \$0.4 million positive revenue variance for miscellaneous revenues.

The City of Denton's General Fund unassigned fund balance at September 30, 2017 is \$31.8 million, or 26.7% of budgeted expenditures. Below is a listing of the ending unassigned balances for the prior year, as well as the fiscal year 2017 unassigned fund balance.

	Actual 9/30/2017	Actual 9/30/2016
Unassigned balance	\$31,770,773	\$28,070,483
% of total budgeted expenditures	26.7%	25.4%
Policy level	20% plus up to a 5% resiliency reserve	20% plus up to a 5% resiliency reserve

The largest revenue source of the General Fund's budget was the ad valorem tax. Denton's ad valorem tax rate is comprised of two components. The first is the operations and maintenance component that is used to calculate revenue for the City's General Fund operations. The second component is the debt portion that is used to calculate revenue to pay the City's general debt service obligations. The Denton Central Appraisal District's certified appraisal roll shows an increase of 8.23% compared to the prior year certified value, which showed an increase of 8.54%. The current property tax year included \$208.4 million of new growth and construction that was added to the tax rolls in Tax year 2016 as compared to Tax year 2015. The fiscal year 2017 ad valorem tax rate decreased to \$0.68334 as compared to the prior years' rate of \$0.68975 per \$100 of valuation.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At the end of fiscal year 2017, the City had \$1,348,101,996 invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, electrical infrastructure, and water and sewer lines (see Table 3 below). This amount represents a net increase (including additions and deductions) of \$243,177,803 or 22.0% over the prior fiscal year.

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

Table 3
Capital Assets at Year-end
(Net of Accumulated Depreciation, in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 21,679	\$ 16,511	\$ 29,413	\$ 27,182	\$ 51,092	\$ 43,693
Landfill improvements	-	-	3,712	5,336	3,712	5,336
Building and improvements	40,172	35,182	16,009	12,439	56,181	47,621
Plant, machinery and equipment	40,691	35,278	263,292	195,463	303,983	230,741
Water rights	-	-	50,135	50,831	50,135	50,831
Infrastructure	107,434	94,165	363,451	339,628	470,885	433,793
Construction in progress	56,681	55,955	355,433	236,955	412,114	292,910
Total capital assets	<u>\$ 266,657</u>	<u>\$ 237,091</u>	<u>\$ 1,081,445</u>	<u>\$ 867,834</u>	<u>\$ 1,348,102</u>	<u>\$ 1,104,925</u>

This year's major asset additions included:

Description	Amount
McKinney Substation	\$ 15,069,268
Pockrus Substation	12,091,068
Westpark Infrastructure	6,535,766
Linda McNatt Animal Shelter	5,658,879
Eagle Drive Improvements	4,531,773
Pecan Creek Interceptor Phase III	3,266,259
Country Lake Subdivision Infrastructure	3,096,436
Highway 380 Utility Relocations	2,917,375
Ryan Meadows Subdivision Infrastructure	2,841,309
Fire Station Land	2,779,080
Total	<u>\$ 58,787,213</u>

Additional information on the City's capital assets can be found in note IV. D. on pages 48 - 50 of this report.

Debt. At year-end, the City had \$977.7 million in bonds and notes outstanding as compared to \$701.9 million at the end of the prior fiscal year, an increase of 39.3%, as shown in Table 4.

Table 4
Outstanding Debt at Year-end
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 118,268	\$ 109,861	\$ 127,677	\$ 141,064	\$ 245,945	\$ 250,925
Certificates of obligation	49,285	34,565	467,620	416,465	516,905	451,030
Revenue bonds	-	-	214,890	-	214,890	-
Total	<u>\$ 167,553</u>	<u>\$ 144,426</u>	<u>\$ 810,187</u>	<u>\$ 557,529</u>	<u>\$ 977,740</u>	<u>\$ 701,955</u>

These amounts do not include net unamortized premiums/ (discounts) of \$80,023,714 or net deferred gain/ (loss) on refunding of (\$6,439,114).

CITY OF DENTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2017

During the current fiscal year, the City issued debt two times, in January 2017 and in May 2017. The January debt issuance resulted in \$214.9 million in utility system revenue bonds to be used to acquire and construct additions and improvements to the City's electric light and power system, including new quick start peak power generation facilities. The May debt issuance resulted in \$90.8 million in certificates of obligation, of which \$73.8 million was for enterprise operations and \$17.0 million for governmental activities, and \$29.1 million in general obligation refunding and improvement bonds which refunded \$13.0 million in general obligation bonds and provided \$17.2 million of new funding for various governmental capital improvements. Normal pay down in debt was \$21.1 million in general obligation bonds and \$24.9 million in certificates of obligation.

Moody's Investor's Service, Inc. has given the City's General Obligation Bonds and the Certificates of Obligation a rating of "Aa2." Standard and Poor's Corporation has given both the City's General Obligation Bonds and Certificates of Obligation an "AA+" rating. Fitch has given the City's General Obligation Bonds and the Certificates of Obligation a rating of "AA+." The City 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 current ratio of tax-supported debt to certified assessed value of all taxable property is 2.41%.

Other long-term liabilities. The City maintains a self-insurance program for general liability, auto liability, public officials' liability, errors and omission liability, police professional liability, and workers' compensation. Private insurance companies cover claims for property loss over \$50,000 per location/\$250,000 per occurrence aggregate, for workers' compensation losses over \$500,000 per occurrence, and for liability over \$500,000 per occurrence. The Risk Retention Fund has a reserve for claims and judgments of \$2.5 million outstanding at year-end compared with \$2.5 million at the end of the prior fiscal year. Other obligations include pension liabilities, accrued vacation pay and sick leave. More detailed information about the City's long-term liabilities is presented in Note IV. G., on pages 53 - 57 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While growth for the Denton community is expected to be moderate in the short term, demands for city services are expected to remain strong over the long term. As a result, the fiscal year 2018 Budget includes an Ad valorem tax rate of \$0.637856/\$100 valuation, a decrease of \$0.045484/\$100 in comparison to the prior year. While sales tax increased over the prior year by 12.9%, the fiscal year 2018 Budget projects a decrease of 1.8% over fiscal year 2017 actual sales tax revenues. General Fund expenditure enhancements for fiscal year 2018 include new positions in public safety and transportation while neighbor service and administrative and community services reduced positions. Funding enhancements of \$1.4 million will be budgeted for public safety, \$0.5 million for neighbor services, \$0.1 million for transportation, and \$0.5 million for administrative and community services in fiscal year 2018 in accordance with priorities established through the Strategic Plan.

The fiscal year 2018 budget includes a decrease of 1.0% for the Energy Cost Adjustment (ECA) rate across all electric customer classes. The water, wastewater and solid waste rates have no changes in fiscal year 2018.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Denton Finance Department, 215 E. McKinney, Denton, Texas 76201.

CITY OF DENTON, TEXAS
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2017

Exhibit I

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS:			
Current assets:			
Cash, cash equivalents and investments, at fair value	\$ 73,260,057	\$ 184,233,710	\$ 257,493,767
Receivables, net of allowances:			
Taxes	7,512,217	-	7,512,217
Accounts	-	12,978,316	12,978,316
Unbilled utility service	-	15,430,089	15,430,089
Interest	316,407	811,932	1,128,339
Other	4,387,573	1,770,270	6,157,843
Internal balances	(13,305,658)	13,305,658	-
Due from other governments	4,184,594	-	4,184,594
Inventory	7,543,184	-	7,543,184
Prepaid items	197,182	22,056,236	22,253,418
Other Assets	-	26,930,415	26,930,415
Total current assets	<u>84,095,556</u>	<u>277,516,626</u>	<u>361,612,182</u>
Noncurrent assets:			
Restricted assets:			
Cash, cash equivalents and investments, at fair value	183,622,576	262,692,264	446,314,840
Escrow deposits	189,000	50,000	239,000
Accrued interest	816,506	1,157,753	1,974,259
Other receivables	88,573	-	88,573
Capital assets not being depreciated:			
Land	21,678,996	29,412,602	51,091,598
Construction in progress	56,681,662	355,433,364	412,115,026
Capital assets, net of accumulated depreciation:			
Buildings	40,171,941	16,009,301	56,181,242
Plant, machinery and equipment	40,690,983	263,292,164	303,983,147
Infrastructure	107,433,845	363,450,727	470,884,572
Landfill improvements	-	3,711,709	3,711,709
Water rights	-	50,134,702	50,134,702
Total noncurrent assets	<u>451,374,082</u>	<u>1,345,344,586</u>	<u>1,796,718,668</u>
Total assets	<u>535,469,638</u>	<u>1,622,861,212</u>	<u>2,158,330,850</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refundings	2,031,132	4,407,982	6,439,114
Deferred pension balances	24,508,814	11,029,165	35,537,979
Total deferred outflows of resources	<u>26,539,946</u>	<u>15,437,147</u>	<u>41,977,093</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	7,667,479	17,587,373	25,254,852
Retainage payable	33,372	11,942	45,314
Deposits	-	4,832,708	4,832,708
Accrued interest	5,472	-	5,472
Noncurrent liabilities due within one year	25,686,936	48,489,970	74,176,906
Other liabilities	366,094	-	366,094
Unearned revenue	95,285,803	-	95,285,803
Payable from restricted assets:			
Accounts payable	6,875,292	13,665,241	20,540,533
Retainage payable	960,173	3,155,749	4,115,922
Accrued interest	962,223	7,260,583	8,222,806
Total current liabilities	<u>137,842,844</u>	<u>95,003,566</u>	<u>232,846,410</u>
Noncurrent liabilities:			
Noncurrent liabilities due in more than one year	246,484,212	883,259,747	1,129,743,959
Total noncurrent liabilities	<u>246,484,212</u>	<u>883,259,747</u>	<u>1,129,743,959</u>
Total liabilities	<u>384,327,056</u>	<u>978,263,313</u>	<u>1,362,590,369</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension balances	4,253,034	525,746	4,778,780
Total deferred inflows of resources	<u>4,253,034</u>	<u>525,746</u>	<u>4,778,780</u>
NET POSITION:			
Net investment in capital assets	165,408,284	502,801,204	668,209,488
Restricted for:			
Debt service	4,666,797	2,671,250	7,338,047
Parks and recreation	5,760,075	-	5,760,075
Capital acquisition	-	8,844,957	8,844,957
Other grants and purposes	4,104,036	-	4,104,036
Unrestricted	(6,509,698)	145,191,889	138,682,191
Total net position	<u>\$ 173,429,494</u>	<u>\$ 659,509,300</u>	<u>\$ 832,938,794</u>

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

CITY OF DENTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Exhibit II

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 40,761,972	\$ 5,266,777	\$ 2,568,095	\$ 99,345
Public safety	68,546,557	8,773,221	1,589,158	170,697
Public works	24,994,628	879,453	16,062	15,801,701
Parks and recreation	16,792,417	4,414,379	494,476	1,108,348
Interest expense	4,970,968	-	-	-
Total governmental activities	<u>156,066,542</u>	<u>19,333,830</u>	<u>4,667,791</u>	<u>17,180,091</u>
Business-type activities:				
Electric system	174,900,860	172,027,080	-	-
Water system	28,202,500	41,332,006	-	5,362,783
Wastewater system	26,730,157	33,360,603	-	10,298,946
Solid waste	34,532,856	33,847,593	-	-
Airport	1,930,767	1,495,619	-	4,686,160
Total business-type activities	<u>266,297,140</u>	<u>282,062,901</u>	<u>-</u>	<u>20,347,889</u>
Total primary government	<u>\$ 422,363,682</u>	<u>\$ 301,396,731</u>	<u>\$ 4,667,791</u>	<u>\$ 37,527,980</u>

(continued on the following page)

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

CITY OF DENTON, TEXAS
STATEMENT OF ACTIVITIES (concluded)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Exhibit II

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
Functions/Programs	Governmental Activities	Business-type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (32,827,755)	\$ -	\$ (32,827,755)
Public safety	(58,013,481)	-	(58,013,481)
Public works	(8,297,412)	-	(8,297,412)
Parks and recreation	(10,775,214)	-	(10,775,214)
Interest expense	(4,970,968)	-	(4,970,968)
Total governmental activities	(114,884,830)	-	(114,884,830)
Business-type activities:			
Electric system	-	(2,873,780)	(2,873,780)
Water system	-	18,492,289	18,492,289
Wastewater system	-	16,929,392	16,929,392
Solid waste	-	(685,263)	(685,263)
Airport	-	4,251,012	4,251,012
Total business-type activities	-	36,113,650	36,113,650
Total primary government	(114,884,830)	36,113,650	(78,771,180)
General revenues:			
Taxes:			
Property tax	64,348,754	-	64,348,754
Sales tax	36,841,137	-	36,841,137
Franchise fees	24,211,081	-	24,211,081
Hotel occupancy tax	2,374,221	-	2,374,221
Beverage tax	617,662	-	617,662
Bingo tax	13,633	-	13,633
Investment income	1,330,008	3,471,635	4,801,643
Gain on sale of capital assets	192,583	383,741	576,324
Miscellaneous	2,042,274	-	2,042,274
Transfers	916,940	(916,940)	-
Total general revenues and transfers	132,888,293	2,938,436	135,826,729
Change in net position	18,003,463	39,052,086	57,055,549
Net position at beginning of year	155,426,031	620,457,214	775,883,245
Net position at end of year	\$ 173,429,494	\$ 659,509,300	\$ 832,938,794

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

(concluded)

CITY OF DENTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2017

Exhibit III

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash, cash equivalents and investments, at fair value	\$ 25,829,121	\$ 5,390,038	\$ 191,562,019	\$ 16,139,018	\$ 238,920,196
Receivables, net of allowances for uncollectibles:					
Taxes	7,046,871	250,675	-	214,671	7,512,217
Accrued interest	114,667	23,756	844,263	71,123	1,053,809
Other	3,892,798	-	-	279,703	4,172,501
Interfund receivables	941,038	-	-	-	941,038
Due from other governments	687,229	-	-	3,497,365	4,184,594
Total assets	<u>\$ 38,511,724</u>	<u>\$ 5,664,469</u>	<u>\$ 192,406,282</u>	<u>\$ 20,201,880</u>	<u>\$ 256,784,355</u>
LIABILITIES:					
Accounts payable	3,979,882	29,977	6,807,732	1,399,381	12,216,972
Retainage payable	-	-	960,174	33,371	993,545
Interfund payables	-	-	-	391,722	391,722
Other liabilities	366,094	-	-	-	366,094
Unearned revenues	-	-	95,262,923	22,880	95,285,803
Total liabilities	<u>4,345,976</u>	<u>29,977</u>	<u>103,030,829</u>	<u>1,847,354</u>	<u>109,254,136</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - property taxes	491,988	225,348	-	-	717,336
Unavailable revenue - general services	1,409,443	-	-	-	1,409,443
Unavailable revenue - intergovernmental	493,544	-	-	2,945,148	3,438,692
Total deferred inflows of resources	<u>2,394,975</u>	<u>225,348</u>	<u>-</u>	<u>2,945,148</u>	<u>5,565,471</u>
FUND BALANCES:					
Restricted for:					
Debt service	-	5,409,144	-	-	5,409,144
Parks and recreation	-	-	4,839,493	5,760,075	10,599,568
Streets and drainage projects	-	-	51,149,305	-	51,149,305
Other capital projects	-	-	18,544,086	-	18,544,086
Other grants and purposes	-	-	-	4,104,036	4,104,036
Committed to:					
Streets	-	-	-	1,158,667	1,158,667
Parks and recreation	-	-	-	439,825	439,825
Other purposes	-	-	-	6,889,093	6,889,093
Assigned to:					
Streets and drainage projects	-	-	7,897,077	-	7,897,077
Capital projects	-	-	6,945,492	-	6,945,492
Other purposes	-	-	-	59	59
Unassigned	31,770,773	-	-	(2,942,377)	28,828,396
Total fund balances	<u>31,770,773</u>	<u>5,409,144</u>	<u>89,375,453</u>	<u>15,409,378</u>	<u>141,964,748</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 38,511,724</u>	<u>\$ 5,664,469</u>	<u>\$ 192,406,282</u>	<u>\$ 20,201,880</u>	<u>\$ 256,784,355</u>

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

**CITY OF DENTON, TEXAS
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2017**

Exhibit IV

Total fund balances - governmental funds (Exhibit III)	\$	141,964,748
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Includes capital assets of internal service funds.		266,657,427
Certain receivables will be collected next year but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows of resources in the funds.		5,565,471
Deferred outflows of resources are not reported in the governmental funds. Includes deferred outflows of internal service funds:		
Deferred loss on refundings	\$	2,031,132
Deferred pension balances		15,828,861
Deferred pension contributions		<u>8,679,953</u>
		26,539,946
An internal charge to business-type activities is not recorded at the fund level.		(8,754,974)
Several internal service funds are used by the City's management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The assets, liabilities, deferred outflows, and deferred inflows of the internal service funds are included with governmental activities. Internal service fund balances not included in other reconciling items listed above or below:		
Current assets	\$	26,274,552
Liabilities		<u>(11,759,812)</u>
		14,514,740
Long-term balances, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Includes balances of internal service funds. Long-term liabilities and related balances at year-end consist of:		
General obligation bonds payable	\$	(118,267,663)
Certificates of obligation payable		(49,285,000)
Bond (premiums)/discounts		(10,994,177)
Accrued interest on the bonds		(967,695)
Capital leases payable		(498,062)
Net Pension Liability		(69,602,329)
Other post employment benefits liability		(7,098,785)
Compensated absences		<u>(12,091,119)</u>
		(268,804,830)
Deferred inflows of resources are not reported in the governmental funds. Includes deferred outflows of internal service funds:		
Deferred pension balances		<u>(4,253,034)</u>
Total net position of governmental activities (Exhibit I)	\$	<u>173,429,494</u>

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

CITY OF DENTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Exhibit V

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 81,040,432	\$ 20,132,397	\$ -	\$ 2,991,465	\$ 104,164,294
Licenses and permits	3,016,697	-	-	-	3,016,697
Franchise fees	13,113,210	-	-	11,097,871	24,211,081
Fines and forfeitures	3,646,487	-	-	2,392,914	6,039,401
Fees for services	7,417,774	-	-	2,977,392	10,395,166
Investment revenue	371,305	189,707	642,054	126,942	1,330,008
Intergovernmental	1,026,313	-	6,147,053	2,474,611	9,647,977
Miscellaneous	534,705	-	447,030	1,400,973	2,382,708
Total revenues	<u>110,166,923</u>	<u>20,322,104</u>	<u>7,236,137</u>	<u>23,462,168</u>	<u>161,187,332</u>
EXPENDITURES:					
Current:					
General government	27,131,242	-	457,153	3,742,362	31,330,757
Public safety	57,921,901	-	112,966	3,121,827	61,156,694
Public works	2,983,128	-	420,782	12,467,894	15,871,804
Parks and recreation	11,893,750	-	68,297	2,178,471	14,140,518
Capital outlay	580,588	-	36,754,088	857,127	38,191,803
Debt service:					
Principal retirement	50,052	14,245,118	-	56,317	14,351,487
Advance refunding escrow	-	103,950	-	-	103,950
Bond issuance costs	-	46,826	124,426	-	171,252
Interest and other charges	-	5,817,769	-	2,180	5,819,949
Total expenditures	<u>100,560,661</u>	<u>20,213,663</u>	<u>37,937,712</u>	<u>22,426,178</u>	<u>181,138,214</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,606,262</u>	<u>108,441</u>	<u>(30,701,575)</u>	<u>1,035,990</u>	<u>(19,950,882)</u>
OTHER FINANCING SOURCES (USES):					
Refunding bonds issued	-	10,850,000	-	-	10,850,000
Payment to refunded bond escrow agent	-	(11,358,665)	-	-	(11,358,665)
Issuance of long-term debt	-	-	33,405,000	-	33,405,000
Premium on debt issuance	-	557,965	2,519,395	-	3,077,360
Insurance recoveries	-	-	86,992	-	86,992
Sale of capital assets	214,468	-	21,600	-	236,068
Transfers in	73,690	358,371	9,105,818	1,319,025	10,856,904
Transfers out	(6,293,495)	-	(204,634)	(3,489,699)	(9,987,828)
Total other financing sources (uses)	<u>(6,005,337)</u>	<u>407,671</u>	<u>44,934,171</u>	<u>(2,170,674)</u>	<u>37,165,831</u>
Net change in fund balances	<u>3,600,925</u>	<u>516,112</u>	<u>14,232,596</u>	<u>(1,134,684)</u>	<u>17,214,949</u>
Fund balance at beginning of year	<u>28,169,848</u>	<u>4,893,032</u>	<u>75,142,857</u>	<u>16,544,062</u>	<u>124,749,799</u>
Fund balances at end of year	<u>\$ 31,770,773</u>	<u>\$ 5,409,144</u>	<u>\$ 89,375,453</u>	<u>\$ 15,409,378</u>	<u>\$ 141,964,748</u>

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

**CITY OF DENTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Exhibit VI

Net change in fund balances - total governmental funds (Exhibit V)	\$ 17,214,949
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$38,191,803) is different from depreciation and retirement of assets (\$16,057,592 = \$18,682,334 total governmental minus \$2,624,742 internal service portion) in the current period.	22,134,211
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Such amounts are recorded in the funds when considered available.	2,334,525
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to increase net position.	9,039,192
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which payments exceeded proceeds.	(23,093,982)
Fund-level financials report costs related to bonds as expenditures; however, these are deferred and amortized on the government-wide financials.	(2,036,162)
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(5,512,724)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and technology services, to individual funds. A portion of the net revenue (expense) of certain internal service funds is reported with governmental activities. The amount reported with business-type activities is \$2,464,337.	(2,076,546)
Change in net position of governmental activities (Exhibit II)	\$ 18,003,463

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



CITY OF DENTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Exhibit VII

	Budgeted Amounts		Actual	Adjustments -	Actual on a	Variance with
	Original	Final	Amounts	Budgetary	Budgetary	Final Budget -
				Basis	Basis	Positive
						(Negative)
REVENUES:						
Taxes	\$ 76,331,979	\$ 76,331,979	\$ 81,040,432	\$ -	\$ 81,040,432	\$ 4,708,453
Licenses and permits	2,964,916	2,964,916	3,016,697	-	3,016,697	51,781
Franchise fees	13,329,014	13,329,014	13,113,210	-	13,113,210	(215,804)
Fines and forfeitures	4,109,242	4,109,242	3,646,487	-	3,646,487	(462,755)
Fees for services	7,934,837	7,934,837	7,417,774	242,453	7,660,227	(274,610)
Investment revenue	271,541	271,541	371,305	-	371,305	99,764
Intergovernmental	1,002,862	1,002,862	1,026,313	-	1,026,313	23,451
Miscellaneous	167,706	167,706	534,705	-	534,705	366,999
Total revenues	106,112,097	106,112,097	110,166,923	242,453	110,409,376	4,297,279
EXPENDITURES:						
Current:						
General government	32,049,729	31,376,218	27,131,242	3,549,823	30,681,065	695,153
Public safety	56,846,803	56,847,264	57,921,901	(2,973,884)	54,948,017	1,899,247
Public works	3,003,285	3,003,285	2,983,128	(104,713)	2,878,415	124,870
Parks and recreation	12,445,641	12,291,262	11,893,750	(638,232)	11,255,518	1,035,744
Capital outlay	617,508	549,895	580,588	-	580,588	(30,693)
Debt service:						
Principal retirement	-	-	50,052	-	50,052	(50,052)
Total expenditures	104,962,966	104,067,924	100,560,661	(167,006)	100,393,655	3,674,269
Excess (deficiency) of revenues over (under) expenditures	1,149,131	2,044,173	9,606,262	409,459	10,015,721	7,971,548
OTHER FINANCING SOURCES						
(USES):						
Sale of capital assets	141,000	141,000	214,468	-	214,468	73,468
Transfer in	8,081,468	8,081,468	73,690	8,066,695	8,140,385	58,917
Transfers out	(9,470,964)	(14,946,179)	(6,293,495)	(8,476,154)	(14,769,649)	176,530
Total other financing sources (uses)	(1,248,496)	(6,723,711)	(6,005,337)	(409,459)	(6,414,796)	308,915
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(99,365)	(4,679,538)	3,600,925	-	3,600,925	8,280,463
Fund balances at beginning of year	28,169,848	28,169,848	28,169,848	-	28,169,848	-
Fund balance at end of year	\$ 28,070,483	\$ 23,490,310	\$ 31,770,773	\$ -	\$ 31,770,773	\$ 8,280,463

Adjustments - Budgetary Basis are expenditures allocated to and reimbursed by other funds. These expenditures are recorded in the other funds' financials.

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

CITY OF DENTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2017

Exhibit VIII

	Business-type Activities - Enterprise Funds		
	Utility System		
	Electric Fund	Water Fund	Wastewater Fund
ASSETS:			
Current assets:			
Cash, cash equivalents and investments, at fair value	\$ 82,707,513	\$ 48,370,037	\$ 40,928,718
Receivables, net of allowances:			
Accounts	8,109,915	1,852,748	1,447,676
Unbilled utility service	9,588,752	2,518,450	1,642,663
Accrued interest	364,513	213,149	180,383
Other	1,594,228	-	-
Interfund receivables	3,714,053	621,449	215,182
Merchandise inventory	-	-	-
Prepaid items	22,056,236	-	-
Other Assets	26,930,415	-	-
Total current assets	155,065,625	53,575,833	44,414,622
Noncurrent assets:			
Restricted assets:			
Cash, cash equivalents and investments, at fair value	188,235,091	27,446,701	13,307,739
Escrow deposit	-	50,000	-
Accrued interest	829,600	120,964	58,652
Total restricted assets	189,064,691	27,617,665	13,366,391
Capital assets, net of accumulated depreciation	550,690,234	256,168,939	208,366,889
Total noncurrent assets	739,754,925	283,786,604	221,733,280
Total assets	894,820,550	337,362,437	266,147,902
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charges on refunding	1,619,363	2,326,819	291,671
Deferred pension balances	2,681,821	1,267,684	1,007,457
Deferred pension contributions	2,090,820	931,539	715,620
Total deferred outflows of resources	6,392,004	4,526,042	2,014,748
LIABILITIES:			
Current liabilities:			
Accounts payable	15,566,637	846,452	577,166
Retainage payable	-	10,842	1,100
Claims payable	-	-	-
Compensated absences payable	1,152,287	530,704	360,791
Leases payable	-	-	-
Deposits	4,261,775	295,491	103,080
Accrued interest	-	-	-
Interfund payables	-	-	-
Payable from restricted assets:			
Accounts payable	12,472,519	391,569	227,519
Retainage payable	3,012,357	-	55,048
Accrued interest	6,116,508	504,721	250,884
Certificate and general obligation bonds	22,025,020	10,247,224	5,690,929
Total current liabilities paid from restricted assets	43,626,404	11,143,514	6,224,380
Total current liabilities	64,607,103	12,827,003	7,266,517

(continued on the following page)

CITY OF DENTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2017

Exhibit VIII

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Solid Waste Fund	Airport Fund	Total Enterprise Funds	
ASSETS:				
Current assets:				
Cash, cash equivalents and investments, at fair value	\$ 9,177,483	\$ 3,049,959	\$ 184,233,710	\$ 17,762,761
Receivables, net of allowances:				
Accounts	1,518,843	49,134	12,978,316	-
Unbilled utility service	1,680,224	-	15,430,089	-
Accrued interest	40,445	13,442	811,932	78,224
Other	-	176,042	1,770,270	303,645
Interfund receivables	-	-	4,550,684	-
Merchandise inventory	-	-	-	7,543,184
Prepaid items	-	-	22,056,236	197,182
Deferred charges	-	-	26,930,415	-
Total current assets	12,416,995	3,288,577	268,761,652	25,884,996
Noncurrent assets:				
Restricted assets:				
Cash, cash equivalents and investments, at fair value	33,362,868	339,865	262,692,264	199,676
Escrow deposit	-	-	50,000	189,000
Accrued interest	147,039	1,498	1,157,753	880
Total restricted assets	33,509,907	341,363	263,900,017	389,556
Capital assets, net of accumulated depreciation	51,684,890	14,533,617	1,081,444,569	7,656,507
Total noncurrent assets	85,194,797	14,874,980	1,345,344,586	8,046,063
Total assets	97,611,792	18,163,557	1,614,106,238	33,931,059
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred charges on refunding	170,129	-	4,407,982	31,781
Deferred pension balances	1,248,052	81,702	6,286,716	1,417,763
Deferred pension contributions	956,875	47,595	4,742,449	1,071,642
Total deferred outflows of resources	2,375,056	129,297	15,437,147	2,521,186
LIABILITIES:				
Current liabilities:				
Accounts payable	569,200	27,918	17,587,373	2,325,799
Retainage payable	-	-	11,942	-
Claims payable	-	-	-	2,237,139
Compensated absences payable	468,075	25,217	2,537,074	625,946
Leases payable	-	-	-	443,839
Deposits	160,424	11,938	4,832,708	-
Accrued interest	-	-	-	5,472
Interfund payables	-	-	-	5,100,000
Payable from restricted assets:				
Accounts payable	573,634	-	13,665,241	-
Retainage payable	88,344	-	3,155,749	-
Accrued interest	388,470	-	7,260,583	-
Certificate and general obligation bonds	7,989,723	-	45,952,896	299,681
Total current liabilities paid from restricted assets	9,040,171	-	70,034,469	299,681
Total current liabilities	10,237,870	65,073	95,003,566	11,037,876

(continued on the following page)

CITY OF DENTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2017

Exhibit VIII

	Business-type Activities - Enterprise Funds		
	Utility System		
	Electric Fund	Water Fund	Wastewater Fund
Noncurrent liabilities:			
General obligation bonds payable	\$ 46,534,009	\$ 56,898,377	\$ 13,679,366
Certificates of obligation	363,341,157	31,359,654	28,980,946
Revenue bonds payable, net of premium/discount	242,899,002	-	-
Compensated absences payable	239,311	58,616	61,339
Claims payable	-	-	-
Net pension liability	15,327,970	7,094,349	5,626,355
Other post employment benefits	1,194,707	1,064,041	753,209
Landfill closure/postclosure costs	-	-	-
Total noncurrent liabilities	669,536,156	96,475,037	49,101,215
Total liabilities	734,143,259	109,302,040	56,367,732
DEFERRED INFLOWS OF RESOURCES:			
Deferred pension balances	224,742	105,738	84,211
Total deferred inflows of resources	224,742	105,738	84,211
NET POSITION:			
Net investment in capital assets	116,389,681	180,907,897	171,479,024
Restricted for debt service	2,671,250	-	-
Restricted for capital acquisition	-	6,650,271	2,194,686
Unrestricted	47,783,622	44,922,533	38,036,997
Total net position	\$ 166,844,553	\$ 232,480,701	\$ 211,710,707

(continued on the following page)

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

CITY OF DENTON, TEXAS
STATEMENT OF NET POSITION (concluded)
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2017

Exhibit VIII

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Solid Waste Fund	Airport Fund	Total Enterprise Funds	
Noncurrent liabilities:				
General obligation bonds payable	\$ 4,156,774	\$ -	\$ 121,268,526	\$ 508,057
Certificates of obligation	45,414,693	-	469,096,450	159,243
Revenue bonds payable, net of premium/discount	-	-	242,899,002	-
Compensated absences payable	141,607	888	501,761	83,911
Claims payable	-	-	-	2,096,874
Net pension liability	7,055,047	445,726	35,549,447	8,013,950
Other post employment benefits	869,856	48,996	3,930,809	830,383
Landfill closure/postclosure costs	10,013,752	-	10,013,752	-
Total noncurrent liabilities	67,651,729	495,610	883,259,747	11,692,418
Total liabilities	77,889,599	560,683	978,263,313	22,730,294
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension balances	104,190	6,865	525,746	118,519
Total deferred inflows of resources	104,190	6,865	525,746	118,519
NET POSITION:				
Net investment in capital assets	19,149,622	14,874,980	502,801,204	6,478,024
Restricted for debt service	-	-	2,671,250	-
Restricted for capital acquisition	-	-	8,844,957	-
Unrestricted	2,843,437	2,850,326	136,436,915	7,125,408
Total net position	\$ 21,993,059	\$ 17,725,306	\$ 650,754,326	\$ 13,603,432
Adjustment to reflect inclusion of internal service fund activities related to enterprise funds.			8,754,974	
Net position of business-type activities (Exhibit I)			\$ 659,509,300	

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

(concluded)

CITY OF DENTON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-type Activities - Enterprise Funds		
	Utility System		
	Electric Fund	Water Fund	Wastewater Fund
OPERATING REVENUES:			
Utility services	\$ 168,797,350	\$ 35,122,575	\$ 29,342,387
Charges for goods and services	-	-	-
Other fees	3,229,730	1,210,679	1,607,942
Miscellaneous	-	-	-
Total operating revenues	<u>172,027,080</u>	<u>36,333,254</u>	<u>30,950,329</u>
OPERATING EXPENSES:			
Operating expenses before depreciation	146,747,594	17,790,036	17,918,132
Depreciation	<u>12,056,412</u>	<u>7,621,963</u>	<u>7,406,247</u>
Total operating expenses	<u>158,804,006</u>	<u>25,411,999</u>	<u>25,324,379</u>
Operating income (loss)	<u>13,223,074</u>	<u>10,921,255</u>	<u>5,625,950</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment revenue	2,113,437	599,007	438,025
Interest expense and fiscal charges	(14,548,281)	(2,517,523)	(1,023,195)
Impact fee revenue	-	4,998,752	2,410,274
Gain (loss) on disposal of capital assets	(560,477)	60,764	190,303
Gas well revenues	-	-	-
Other non-operating revenues (expenses)	<u>-</u>	<u>189,738</u>	<u>28,821</u>
Total non-operating revenues (expenses)	<u>(12,995,321)</u>	<u>3,330,738</u>	<u>2,044,228</u>
Income (loss) before contributions and transfers	227,753	14,251,993	7,670,178
CONTRIBUTIONS AND TRANSFERS:			
Capital contributions	-	5,362,783	10,298,946
Transfers in	3,000	12,200	740,803
Transfers out	<u>(968,616)</u>	<u>(948,030)</u>	<u>(610,244)</u>
Total contributions and transfers	<u>(965,616)</u>	<u>4,426,953</u>	<u>10,429,505</u>
Change in net position	(737,863)	18,678,946	18,099,683
Net position at beginning of year	<u>167,582,416</u>	<u>213,801,755</u>	<u>193,611,024</u>
Total net position at end of year	<u>\$ 166,844,553</u>	<u>\$ 232,480,701</u>	<u>\$ 211,710,707</u>

(continued on the following page)

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

CITY OF DENTON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION (concluded)
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Exhibit IX

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Solid Waste Fund	Airport Fund	Total Enterprise Funds	
OPERATING REVENUES:				
Utility services	\$ 33,387,274	\$ -	\$ 266,649,586	\$ -
Charges for goods and services	-	793,631	793,631	65,126,856
Other fees	460,319	-	6,508,670	-
Miscellaneous	-	95,470	95,470	1,058,819
Total operating revenues	<u>33,847,593</u>	<u>889,101</u>	<u>274,047,357</u>	<u>66,185,675</u>
OPERATING EXPENSES:				
Operating expenses before depreciation	25,342,233	1,291,801	209,089,796	68,322,882
Depreciation	<u>7,259,584</u>	<u>640,979</u>	<u>34,985,185</u>	<u>2,624,742</u>
Total operating expenses	<u>32,601,817</u>	<u>1,932,780</u>	<u>244,074,981</u>	<u>70,947,624</u>
Operating income (loss)	<u>1,245,776</u>	<u>(1,043,679)</u>	<u>29,972,376</u>	<u>(4,761,949)</u>
NON-OPERATING REVENUES (EXPENSES):				
Investment revenue	281,604	39,562	3,471,635	146,875
Interest expense and fiscal charges	(1,349,352)	-	(19,438,351)	(66,518)
Impact fee revenue	-	-	7,409,026	-
Gain (loss) on disposal of capital assets	132,674	-	(176,736)	19,777
Gas well revenues	-	606,518	606,518	-
Other non-operating revenues (expenses)	-	22,447	241,006	-
Total non-operating revenues (expenses)	<u>(935,074)</u>	<u>668,527</u>	<u>(7,886,902)</u>	<u>100,134</u>
Income (loss) before contributions and transfers	310,702	(375,152)	22,085,474	(4,661,815)
CONTRIBUTIONS AND TRANSFERS:				
Capital contributions	-	4,686,160	20,347,889	73,068
Transfers in	582,572	654,175	1,992,750	47,864
Transfers out	<u>(332,800)</u>	<u>(50,000)</u>	<u>(2,909,690)</u>	<u>-</u>
Total contributions and transfers	<u>249,772</u>	<u>5,290,335</u>	<u>19,430,949</u>	<u>120,932</u>
Change in net position	560,474	4,915,183	41,516,423	(4,540,883)
Net position at beginning of year	<u>21,432,585</u>	<u>12,810,123</u>	<u>609,237,903</u>	<u>18,144,315</u>
Total net position at end of year	<u>\$ 21,993,059</u>	<u>\$ 17,725,306</u>	<u>\$ 650,754,326</u>	<u>\$ 13,603,432</u>
Change in fund net position of proprietary funds			41,516,423	
Adjustment to reflect inclusion of internal service fund activities related to enterprise funds.			<u>(2,464,337)</u>	
Change in net position of business-type activities (Exhibit II)			<u>\$ 39,052,086</u>	

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

(concluded)

CITY OF DENTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Exhibit X

	Business-type Activities - Enterprise Funds		
	Utility System		
	Electric Fund	Water Fund	Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 171,719,665	\$ 35,403,856	\$ 30,810,634
Cash paid to employees for services	(15,044,676)	(9,586,428)	(7,141,807)
Cash paid to suppliers	(113,433,035)	(7,693,819)	(11,133,669)
Net cash provided (used) by operating activities	<u>43,241,954</u>	<u>18,123,609</u>	<u>12,535,158</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers out	(916,266)	(948,030)	(610,244)
Transfers in	-	12,200	505,803
Principal payments on non-capital debt	(3,675,000)	-	-
Interest and fiscal charges on non-capital debt	(2,403,562)	-	-
Net cash used by noncapital financing activities:	<u>(6,994,828)</u>	<u>(935,830)</u>	<u>(104,441)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuance of debt	312,347,295	-	-
Principal payments on capital debt	(10,280,000)	(7,075,000)	(4,465,000)
Interest and fiscal charges	(12,163,744)	(3,614,720)	(1,587,645)
Principal payments under capital lease obligation	-	-	-
Proceeds from gas wells	-	-	-
Proceeds from impact fees	-	4,998,752	2,410,274
Proceeds from sale of capital assets	53,423	81,598	190,303
Acquisition and construction of capital assets	(202,356,537)	(8,899,885)	(8,827,458)
Net cash used by capital financing activities	<u>87,600,437</u>	<u>(14,509,255)</u>	<u>(12,279,526)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and maturities of investment securities	60,229,889	46,018,709	34,941,962
Purchase of investment securities	(172,072,061)	(49,627,254)	(36,003,132)
Interest received on investments	1,601,235	604,816	450,368
Net cash provided (used) by investing activities	<u>(110,240,937)</u>	<u>(3,003,729)</u>	<u>(610,802)</u>
Net increase (decrease) in cash and cash equivalents	13,606,626	(325,205)	(459,611)
Cash and cash equivalents at beginning of year	18,896,356	9,426,539	6,966,222
Cash and cash equivalents at end of year	32,502,982	9,101,334	6,506,611
Investments, at fair value (Note IV.A.)	238,439,622	66,715,404	47,729,846
Cash, cash equivalents and investments, at fair value	<u>\$ 270,942,604</u>	<u>\$ 75,816,738</u>	<u>\$ 54,236,457</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	<u>\$ 13,223,074</u>	<u>\$ 10,921,255</u>	<u>\$ 5,625,950</u>
Adjustments:			
Depreciation expense	12,056,412	7,621,963	7,406,247
Decrease (Increase) in receivables	103,331	(823,306)	(176,203)
Increase in interfund receivables	(410,746)	(106,092)	36,508
Increase in inventories	-	-	-
Decrease (Increase) in prepaid items	31,020,701	15,054	-
Decrease (Increase) in other assets	(26,930,415)	-	-
Increase in escrow deposits	-	-	-
Increase (Decrease) in accounts payable	13,068,537	(172,902)	(792,563)
Increase (Decrease) in compensated absences payable	(25,388)	52,668	(28,890)
Increase (Decrease) in net municipal pension balances	815,381	363,283	279,079
Increase in other post employment benefits	321,067	251,686	185,030
Increase in closure/postclosure liability	-	-	-
Increase in interfund payables	-	-	-
Total adjustments	<u>30,018,880</u>	<u>7,202,354</u>	<u>6,909,208</u>
Net cash provided (used) by operating activities	<u>\$ 43,241,954</u>	<u>\$ 18,123,609</u>	<u>\$ 12,535,158</u>
NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES:			
Decrease in fair value of investments	(479,575)	(149,707)	(107,956)
Increase (Decrease) in equity due to non-cash transfers	(49,350)	-	-
Capital asset contributions	-	5,362,783	10,298,946
The notes to the basic financial statements are an integral part of this statement.			(continued on the following page)

CITY OF DENTON, TEXAS
STATEMENT OF CASH FLOWS (concluded)
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Exhibit X

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Funds
	Solid Waste Fund	Airport Fund	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 33,562,315	\$ 857,136	\$ 272,353,606	\$ 65,930,287
Cash paid to employees for services	(10,423,460)	(509,184)	(42,705,555)	(11,318,415)
Cash paid to suppliers	(12,876,811)	(806,195)	(145,943,529)	(56,237,241)
Net cash provided (used) by operating activities	10,262,044	(458,243)	83,704,522	(1,625,369)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out	(97,800)	(50,000)	(2,622,340)	-
Transfers in	582,572	654,175	1,754,750	47,864
Principal payments on non-capital debt	-	-	(3,675,000)	-
Interest and fiscal charges on non-capital debt	-	-	(2,403,562)	-
Net cash used by noncapital financing activities:	484,772	604,175	(6,946,152)	47,864
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from issuance of debt	15,647,662	-	327,994,957	569,143
Principal payments on capital debt	(7,386,020)	-	(29,206,020)	(623,863)
Interest and fiscal charges	(1,925,529)	54	(19,291,584)	(70,378)
Principal payments under capital lease obligation	-	-	-	(768,799)
Proceeds from gas wells	-	580,726	580,726	-
Proceeds from impact fees	-	-	7,409,026	-
Proceeds from sale of capital assets	345,529	-	670,853	9,370
Acquisition and construction of capital assets	(12,653,076)	(829,289)	(233,566,245)	(934,761)
Net cash used by capital financing activities	(5,971,434)	(248,509)	54,591,713	(1,819,288)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale and maturities of investment securities	18,986,126	1,985,571	162,162,257	15,046,364
Purchase of investment securities	(23,797,870)	(1,965,427)	(283,465,744)	(12,430,170)
Interest received on investments	269,852	40,799	2,967,070	166,944
Net cash provided (used) by investing activities	(4,541,892)	60,943	(118,336,417)	2,783,138
Net increase (decrease) in cash and cash equivalents	233,490	(41,634)	13,013,666	(613,655)
Cash and cash equivalents at beginning of year	4,870,290	448,286	40,607,693	2,780,660
Cash and cash equivalents at end of year	5,103,780	406,652	53,621,359	2,167,005
Investments, at fair value (Note IV.A.)	37,436,571	2,983,172	393,304,615	15,795,432
Cash, cash equivalents and investments, at fair value	\$ 42,540,351	\$ 3,389,824	\$ 446,925,974	\$ 17,962,437
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 1,245,776	\$ (1,043,679)	\$ 29,972,376	\$ (4,761,949)
Adjustments:				
Depreciation expense	7,259,584	640,979	34,985,185	2,624,742
Decrease (Increase) in receivables	(247,323)	(31,965)	(1,175,466)	(235,388)
Increase in interfund receivables	-	-	(480,330)	-
Increase in inventories	-	-	-	(1,143,268)
Decrease (Increase) in prepaid items	-	-	31,035,755	(102,268)
Decrease (Increase) in other assets	-	-	(26,930,415)	-
Increase in escrow deposits	-	-	-	(20,000)
Increase (Decrease) in accounts payable	(1,419,518)	(54,030)	10,629,524	522,906
Increase (Decrease) in compensated absences payable	31,602	1,963	31,955	63,444
Increase (Decrease) in net municipal pension balances	373,163	18,561	1,849,467	417,921
Increase in other post employment benefits	216,867	9,928	984,578	213,742
Increase in closure/postclosure liability	2,801,893	-	2,801,893	-
Increase in interfund payables	-	-	-	794,749
Total adjustments	9,016,268	585,436	53,732,146	3,136,580
Net cash provided (used) by operating activities	\$ 10,262,044	\$ (458,243)	\$ 83,704,522	\$ (1,625,369)
NONCASH CAPITAL, INVESTING AND FINANCING ACTIVITIES:				
Decrease in fair value of investments	(82,444)	(6,795)	(826,477)	(37,390)
Increase (Decrease) in equity due to non-cash transfers	-	-	(49,350)	-
Capital asset contributions	-	4,686,160	20,347,889	73,068
The notes to the basic financial statements are an integral part of this statement.				(concluded)

CITY OF DENTON, TEXAS
STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
AS OF SEPTEMBER 30, 2017

Exhibit XI

	<u>Agency Fund</u>
ASSETS:	
Cash, cash equivalents and investments, at fair value	\$ 182,026
Total assets	<u>\$ 182,026</u>
LIABILITIES:	
Accounts payable	182,026
Total liabilities	<u>\$ 182,026</u>

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

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Denton is a municipal corporation governed by an elected seven-member council consisting of a mayor elected at large and six councilpersons, four representing specific geographical districts and two elected at large. The City receives funding from state and federal government sources and must comply with the requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity," as defined in pronouncements by the Governmental Accounting Standards Board (GASB), as council members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

The financial statements of the City have been prepared to conform to accounting principles generally accepted (GAAP) in the United States of America as applicable to state and local governments. Generally accepted accounting principles for local governments include principles prescribed by GASB, the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

A. Reporting entity

An elected seven-member council consisting of a mayor and six councilpersons govern the City. As required by accounting principles generally accepted in the United States of America, these financial statements present the City (the primary government) and its component units, which are entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, and so data from these units are combined with data of the primary government. A discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the City. The City had no component units, discretely presented or blended, at September 30, 2017.

B. Government-wide and fund financial statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The reporting focus is either the City as a whole (government-wide financial statements) or major individual funds (within the fund financial statements). The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental 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.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (public safety, public works, etc.) 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; (2) grants and contributions that are restricted to meeting operational requirements of a particular function or segment; and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, sales taxes, franchise fees, interest income, etc.).

Separate fund 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 governmental funds and major enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category and for the governmental and enterprise funds combined)

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

for the determination of major funds. Non-major funds are combined in a column in the fund financial statements.

Internal service funds, which traditionally provide services primarily to other funds of the government, are presented in summary form as part of the proprietary fund financial statements. The financial statements of internal service funds are allocated (based on the percentage of goods or services provided) between the governmental and business-type activities when presented at the government-wide level.

The City's fiduciary funds are presented in the fund financial statements. By definition these assets are being held for the benefit of a third party (other local governments, individuals, etc.) and cannot be used to address activities or obligations of the government, and as such, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category). Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement focus, basis of accounting and financial statement presentation

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

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

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

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid general operating costs, fixed charges and capital improvement costs that are not paid through other funds.

The debt service fund accounts for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt, paid primarily by taxes levied by the City. On a budgetary-basis, the debt service fund also accounts for pass-through debt service payments from the self-supporting proprietary funds.

The capital projects fund accounts for financial resources used for the acquisition or construction of capital other than those recorded in the enterprise funds and internal service funds.

Other governmental funds are a summarization of all of the non-major governmental funds.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

The City reports the following major proprietary funds:

The City utility system is made up of three separate funds as follows:

The electric fund accounts for electrical utility services to the residents and commercial establishments of the City. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance and related debt service.

The water fund accounts for water utility services to the residents and commercial establishments of the City. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance and related debt service.

The wastewater fund accounts for sewer and storm water services to the residents and commercial establishments of the City. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance and related debt service.

The City provides additional services through the following funds:

The solid waste fund accounts for the provision of solid waste services to the residents of the City. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, finance and related debt service.

The airport fund accounts for the airport services to the public and is funded through operational and gas well revenues. Activities necessary to provide such services are accounted for in the fund, including, but not limited to, administration, operations, maintenance, and finance.

The City additionally reports the following funds:

Internal service funds are used to account for the financing of materials and services provided by one department of the City to other departments of the City on a cost-reimbursement basis.

Agency funds are used to account for the payment of developers' escrow funds and other similar liabilities. The City holds the assets in an agency capacity for individuals, private organizations or other governments.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's electric, water, wastewater, solid waste, and airport funds are charges to customers for services. Operating expenses for the 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 City recognizes, as an asset or a liability, the difference between the electric fund's energy cost adjustment (ECA) revenue collected and related costs.

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

D. Budgetary information

The City Council follows these procedures, as prescribed by City Charter, in establishing the budgets reflected in the financial statements:

1. Within the time period required by law, 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 prior to the adoption of the budget in order to obtain taxpayer comments.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

3. The annual budget adopted by the City Council covers the general fund, non-major special revenue funds (Recreation Fund, Police Confiscation Fund, Tourist and Convention Fund, Gas Well Revenues Fund, Street Improvement Fund, and the Citizens' Park Trusts), the debt service fund, the enterprise funds, and internal service funds. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year. The basic financial statements reflect the legal level of control, (i.e. the level at which expenditures cannot legally exceed the appropriated amount) which is established at the total fund level as approved by City Council.
4. The City Charter provides for the City Manager to transfer any part of the unencumbered appropriation balance or the entire balance thereof between programs or general classifications of expenditures within an office, department, agency or organizational unit. (The City Council defines an organizational unit as set forth in Article VIII, Section 8.07 of the City Charter, to be a fund that has been appropriated by the City Council.) City Council approval is not required up to the fund level. The Charter also provides that at any time during the year, at the request of the City Manager, City Council may by resolution transfer any part of the unencumbered appropriation balance or the entire balance thereof from one office, department, agency, or organizational unit to another, as well as make any increases in fund appropriations.

Budgets are adopted on a basis for the governmental funds and the budgeted special revenue funds that is generally consistent with generally accepted accounting principles. Budgets for enterprise funds are prepared on the full accrual basis, except certain noncash transactions such as depreciation expense and amortization on debt issuance costs where it is not budgeted, and debt service payments where it is budgeted. Also, during the budgetary process, amounts are included in all fund budgets to recognize administrative transfers between funds for goods or services. These amounts are not included in the reporting of actual activity for the funds. For funds reporting required budget-to-actual comparisons, these administrative transfers are included as adjustments – budgetary basis.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed contracts for goods or services (i.e., purchase orders and contracts). While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances are re-appropriated against the subsequent year's budget, reducing the available appropriations for additional expenditures.

E. Assets, liabilities and net position or equity

1. Cash, cash equivalents and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are carried at fair value, except for the position in local government investment pools. Fair value is determined as the price at which two willing parties would complete an exchange.

The City uses a pooled cash and investment fund to hold and account for all of the City's investments. For financial reporting purposes, the investment balances in the pooled fund are allocated back to the individual funds based on their respective share of the pooled total. Interest earned on investments is also allocated back and recorded directly to the individual funds on a monthly basis.

2. Receivables

Outstanding balances between funds are reported as "interfund receivables/payables." Any residual balances between governmental activities and business-type activities are reported in the government-wide statements as "internal balances."

Trade and property tax receivables are shown net of an allowance for uncollectible accounts. The City accrues amounts for utility services provided in September, but not billed at September 30, 2017.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

3. Inventories

Inventories of supplies are maintained at the City warehouse for use by all City funds and are accounted for by the consumption method. Cost is determined using a moving average method. No inventories exist in the governmental fund types.

4. Prepaid items

Certain costs applicable to future accounting periods are recorded as prepaid items. During the recent fiscal years the City prepaid certain contractual obligations to the Texas Municipal Power Agency (TMPA) relating to the cost of TMPA providing energy to the City. The benefit from the prepayment is being amortized over the benefit period of 15 years, of which 7.5 years is remaining in the electric fund.

5. Other Assets

Certain costs applicable to future accounting periods are recorded as other assets. During the current fiscal year the City impaired its TMPA prepaid purchase power due to a change in seasonality generation. Of the \$43,378,333 balance in TMPA prepaid purchase power outstanding as of September 30, 2017, as part of the City's total prepaid balance in the electric fund, \$26,930,415 was impaired and recorded as an Other Asset to be amortized over 7.5 years in the electric fund. See footnote V.E. *Agreement with TMPA* for further information regarding this change with TMPA.

6. Restricted assets

Certain proceeds of the City's governmental and proprietary fund general obligation bonds and certificates of obligation, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Assets collected from impact fees are limited by state statute in use and also shown as restricted on the balance sheet of the Water and Wastewater funds.

7. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-type activities and enterprise funds is included as part of the capitalized value of the assets constructed. For 2017, net interest capitalization of \$6,029,676 was recorded for electric fund projects, \$507,809 for water fund projects, \$529,779 for wastewater fund projects, and \$183,620 for solid waste fund projects.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Infrastructure	20 – 40
General improvements	10
Machinery and equipment	10 – 20
Furniture and office equipment	10
Computer equipment/software	3 – 10
Plant and equipment	5
Underground pipe	40
Water storage rights	50 – 100
Water recreation rights	50
Communication equipment	5
Vehicles	3 – 10

Renewals and betterments of property and equipment are capitalized, whereas normal repair and maintenance are charged to expense as incurred.

8. Compensated absences

The City allows full-time employees to accumulate unused vacation up to 320 hours (480 for Civil Service Fire employees.) Upon termination, any accumulated vacation time will be paid to an employee. Generally, sick leave is not paid upon termination except for civil service fire fighters and police officers. Firefighters and police officers accumulate unused sick leave up to a maximum of 1080 hours and 720 hours, respectively. All other employees are paid only upon illness while employed by the City. Accumulated vacation and sick leave is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements but have not been paid this amount at the end of the fiscal year. The General Fund and Other Governmental Funds are used to record any payout expenditures of the governmental funds' employees and related liability, while proprietary fund payouts for their employees are recorded as reductions to the liabilities in those funds.

9. Arbitrage

Arbitrage involves the investment of the proceeds from the sale of tax-exempt bonds in taxable instruments and securities authorized by the Public Funds Investment Act (Texas Government Code, Chapter 2256) that yield a higher rate, resulting in interest revenue in excess of interest costs. Federal tax code requires that these excess earnings be rebated to the federal government. The Capital Projects Fund has been used in prior years to liquidate governmental funds' related liability.

10. Pensions

For purposes of measuring the net pension liability, pension-related deferred outflows and inflows of resources, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and the Firemen's Relief and Retirement Fund (FRRF) and additions to/deductions from TMRS's and the FRRF's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and the FRRF. 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.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

11. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Gain/loss on refunding are reported as deferred outflow/inflow and recognized as a component of interest expense over the remaining life of the old debt or life of the new debt, whichever is shorter.

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

12. Fund equity

The City follows GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and in accordance with the statement, the classifications of governmental fund balances are presented as follows:

Nonspendable fund balances – includes amounts not in a spendable form or are legally or contractually required to be maintained intact. Examples include inventory or endowments.

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, creditors, grantors, and contributors or through enabling legislation.

Committed fund balance – includes amounts that can be used only for the specific purposes determined by the City Council through an ordinance and may only be changed or lifted through another ordinance. The ordinance must either adopt or rescind the commitment, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned fund balance - comprises amounts intended to be used for specific purposes. Intent can be expressed by the City Council, or per the policy adopted by an ordinance by the City Council, the City Manager or the City Manager's designee (assistant city manager) may also make an assignment. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed and, at a minimum, is intended for the purpose of that fund.

Unassigned fund balance – is the residual classification of the general fund and includes all amounts not constrained in the other classifications. Unassigned amounts are technically available for any purpose. The General Fund is the only fund to report a positive unassigned fund balance amount. However, other governmental funds may report a negative unassigned fund balance as necessary if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned for those purposes.

When multiple categories of fund balance are available for expenditure and approved for use by the City Council, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. Normally this would result in the use of restricted, then committed, then assigned, and lastly, unassigned fund balance.

13. Minimum fund balance policy

It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund equal to 20% of budgeted expenditures. An additional 5% resiliency reserve (25% combined total) may be maintained to safeguard against unusual financial circumstances or economic downturns.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

14. Net position

Net position represents the difference between assets, deferred inflows, deferred outflows, and liabilities. 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 City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

15. Deferred outflows and 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 applying to a future period and will not be recognized as an outflow of resources, either expenses or expenditures, until that time. The City reports the following items qualifying for this category:

- Deferred charges on refunding reported in the statements of net position - A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt.
- Deferred pension deficit earnings reported in the statement of net position – A deferred charge is recorded for the difference between actual investment earnings and expected investment earnings during the period and is amortized over future periods.
- Deferred pension actuarial losses reported in the statement of net position – A deferred charge is recorded for the difference between actual experience and expected experience during the period between two actuarial valuations and is amortized over future periods.
- Deferred pension contributions reported in the statement of net position – A deferred charge is recorded for pension contribution amounts paid by the City after the current year’s measurement date (December 2016) and will be fully recognized in the next period on the next measurement date (December 2017).
- Deferred pension actuarial assumption changes – A deferred charge is recorded for the difference due to assumption changes and amortized over future periods.

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 applying to a future period and will not be recognized as an inflow of resources, or revenues, until that time. The City has two types of items qualifying for reporting in this category:

- Deferred pension excess earnings reported in the statement of net position – A deferred charge is recorded for the difference between actual investment earnings and expected investment earnings during the period and is amortized over future periods.
- Deferred pension actuarial gains reported in the statement of net position – A deferred charge is recorded for the difference between actual experience and expected experience during the period between two actuarial valuations and is amortized over future periods.
- Deferred pension actuarial assumption changes – A deferred charge is recorded for the difference due to assumption changes and amortized over future periods.
- Deferred unavailable revenues reported on the balance sheet of the governmental funds – A deferred amount is recorded for the billed revenues not yet collected or available. These amounts are deferred and recognized as inflow of resources in the period the amounts become available.

F. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

An element of that reconciliation states, "Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which payments exceeded proceeds." The details of this (\$23,093,982) difference are as follows:

Debt issued or incurred:	
Issuance of general obligation debt	\$(27,440,000)
Issuance of certificates of obligation	(16,815,000)
Assumption of Airport debt	(4,430,469)
Principal repayments:	
General obligation debt principal retirement	8,745,118
Certificates of obligation principal retirement	5,500,000
Refunded debt principal	11,240,000
Lease obligations principal retirement	<u>106,369</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$(23,093,982)</u></u>

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins and donations) is to decrease net position." The details of this \$9,039,192 difference are as follows:

Net effect of transactions involving asset retirements/disposals	\$ (279,874)
Capital assets transferred to business-type activities as capital contributions	(119,560)
Donations of capital assets increase net position in the statement of activities but do not appear in the governmental funds because they are not financial resources	<u>9,438,626</u>
Net adjustment to increase net changes in fund balances - total governmental funds	<u><u>\$ 9,039,192</u></u>

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Another element of that reconciliation states, "Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of the (\$5,512,724) difference are as follows:

Compensated absences	\$ (558,541)
Net pension liability	2,074,066
Municipal pension deferred actuarial losses	(6,109,798)
Municipal pension deferred contributions	259,135
Municipal pension deferred assumption changes	(364,978)
Municipal pension deferred excess earnings	844,213
Other post employment benefits	(1,483,139)
Accrued interest	(173,682)
Net adjustment to decrease net changes in fund balances	
- total governmental funds to arrive at changes in net position of governmental activities	<u><u>\$ (5,512,724)</u></u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit fund equity

The Criminal Justice fund had deficit fund balances of (\$19,398) at September 30, 2017. The deficit was a result of reimbursement timing and clears in fiscal year 2017-2018. The Engineering Services internal service fund had a deficit net position of (\$1,102,261) due to the implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27" which resulted in a significant increase in the net pension liability.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

In order to facilitate effective cash management practices, the operating cash of all funds is pooled into a common account for the purpose of increasing income through combined investment activities. At year-end, the City had \$84,466,799 in cash and cash equivalents of which \$182,026 is included in the agency funds and \$16,179 in petty cash.

The Public Funds Investment Act (Texas Government Code) authorizes the City to invest in obligations of the U.S. Treasury, U.S. agencies, fully collateralized repurchase agreements, public fund investment pools, SEC-registered no-load money market mutual funds, municipal securities of any state rated A or better, certificates of deposit (fully collateralized, insured, and standby letters of credit backed), and commercial paper rated not less than A-1 or P-1 with a stated maturity of no more than 270 days. The City's investment policy may further restrict those investment options. The investments reported on September 30, 2017 were similar to those held during the fiscal year.

The City reports all investments in the financial statements at fair value. At September 30, 2017, the City's investments carried a fair value of \$704,448,006, of which \$59,924,172 is in a local governmental investment pool and \$25,000,000 is in an insured cash sweep savings deposit both of which the City classifies in the financial statements as cash equivalents.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and Application establishes an authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

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

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

At September 30, 2017, the City had the following recurring fair value investments:

	9/30/2017	Fair Value Measurement Method			Weighted Average Maturity (Days)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Percent of Total Investments	
<u>Investments Measured at Amortized Cost:</u>					
TexSTAR - Investment Pool	59,924,172			8.51%	1
Insured Cash Sweep Savings	25,000,000			3.55%	1
Certificates of Deposit	151,000,000			21.43%	398
<u>Investments by Fair Value Level:</u>					
Debt Securities:					
U.S. Treasury Securities	54,005,424	54,005,424	-	7.67%	241
U.S. Agency Securities	351,938,910	141,599,392	210,339,518	49.95%	526
Commercial Paper	39,846,205	-	39,846,205	5.66%	98
Municipal Bonds - Coupon	22,733,295	-	22,733,295	3.23%	334
Total Investments	<u>704,448,006</u>	<u>195,604,816</u>	<u>272,919,018</u>		
Portfolio Weighted Average Maturity					383

Of the investments recorded at fair value, \$279,394,581 used the documented trade history in exact security pricing model, \$15,725,598 used the option-adjusted discounted cash flow pricing model, and \$173,403,655 used the present value of expected future cash flow pricing model.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values due to interest rate fluctuations by limiting the weighted average maturity of its investment portfolio to less than eighteen months.

Credit risk. The City's investment policy limits investments to obligations of the United States of America and its agencies, investment quality obligations of the State of Texas (including agencies, municipalities, counties, and other political subdivisions) with a rating not less than AA, Certificates of Deposits and savings deposits (fully insured, collateralized, or standby letter of credit backed), and commercial paper that has a maturity of 270 days or less and a minimum rating of A-1, P-1, or an equivalent rating by at least two nationally recognized rating agencies. The City's investments in the bonds of U.S. agencies were rated AA+ by Standard & Poor's, and the City's investment in TexSTAR were rated "AAAm" by Standard & Poor's.

Custodial credit risk. This is the risk that in the event of a bank or counterparty failure, the City's deposits may not be returned. The policy states that all bank deposits of City funds shall be secured by pledged collateral with a market value equal to no less than 102 percent of the principal plus accrued interest less an

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

amount insured by FDIC. As of September 30, 2017, the bank balance for deposits was \$2,133,899 and was fully collateralized by the City's third party custodian, BNY Mellon.

Concentration of Credit Risk. The City's investment policy minimizes the risk of potential loss by diversifying investment types according to the following limitations based on value: U.S. Treasury bills/notes/bonds (100%), U.S. Agencies and Instrumentalities (100%), State of Texas Obligations – including agencies and local governments (15%), local government investment pools (50% in government securities and 15% in prime securities), repurchase agreements (20%), certificates of deposit (35%), U.S. Money Market Mutual Funds (35%), callable U.S. Agencies and Instrumentalities (20%), and commercial paper (15%).

TexSTAR. The Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code (PFIA). TEXSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. J.P. Morgan Investment Management Inc. (JPMIM) and Hilltop Securities Inc. (HTS) serve as co-administrators. JPMIM provides investment management services, and FirstSouthwest, a division of HTS, provides participant service and marketing. Custodial, fund accounting, and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc.

TexSTAR states all investments at amortized cost value. The investment pool has a redemption notice of one day or same day, which may be redeemed daily. As the redemption period is only one day or less, the City classifies these balances in the financials as cash equivalent. TexSTAR may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, a general banking moratorium, or a national state of emergency affecting the pool's liquidity. The City has no unfunded commitments related to the investment pool.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Cash, cash equivalents and investments, at fair value are reported together on the financial statements. Investments, at fair value, by fund were as follows:

	General Fund	Debt Service	Capital Projects	Other Governmental Funds
Unrestricted investments	\$ 22,935,763	\$ 4,751,564	\$168,870,622	\$ 14,226,424
Change in fair value	(39,236)	(8,128)	(288,886)	(24,336)
Restricted investments	-	-	-	-
Change in fair value	-	-	-	-
Total	<u>\$ 22,896,527</u>	<u>\$ 4,743,436</u>	<u>\$168,581,736</u>	<u>\$ 14,202,088</u>

	Electric	Water	Wastewater	Solid Waste
Unrestricted investments	\$ 72,910,431	\$42,634,215	\$ 36,080,260	\$ 8,089,839
Change in fair value	(124,727)	(72,934)	(61,722)	(13,839)
Restricted investments	165,937,787	24,195,514	11,731,377	29,410,884
Change in fair value	(283,869)	(41,391)	(20,069)	(50,313)
Total	<u>\$238,439,622</u>	<u>\$66,715,404</u>	<u>\$ 47,729,846</u>	<u>\$ 37,436,571</u>

	Airport	Internal Service Funds	Total City Investments
Unrestricted investments	\$ 2,688,678	\$15,646,476	\$388,834,272
Change in fair value	(4,599)	(26,766)	(665,173)
Restricted investments	299,606	176,023	231,751,191
Change in fair value	(513)	(301)	(396,456)
Total	<u>\$ 2,983,172</u>	<u>\$15,795,432</u>	<u>\$619,523,834</u>

B. Property tax revenue

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on October 1st and are due and payable at that time; therefore, the legally enforceable claim arises on October 1st. A receivable is recorded at that time. All unpaid taxes levied October 1st become delinquent February 1st of the following year.

Property taxes at the fund level are recorded as receivables and revenue in the period they become available. Current-year revenues recognized are those Ad valorem taxes collected within the current period or soon enough thereafter to pay current liabilities, which is sixty days after year-end. All other outstanding receivables are adjusted from revenue and recognized as deferred inflows of resources for future collections. Current tax collections for the year ended September 30, 2017 were 99.48% of the tax levy. An allowance is provided for delinquent taxes not expected to be collected in the future.

At September 30, 2017, the City had a tax rate of \$0.683340 per \$100 valuation. Based upon the maximum Ad valorem tax of \$2.50 per \$100 valuation imposed by Texas Constitutional law, the City had a tax rate margin of \$1.81666. Additional revenues up to \$166,628,606 could be raised per year based on the current year's certified assessed value of \$9,172,250,493 before the limit is reached.

On December 7, 2010, the City Council approved a Tax Increment Financing Reinvestment Zone (TIRZ #1) for the purpose of dedicating the increase in tax revenues generated within the TIRZ district for development in the downtown area of the City for a total of 30 years. The tax increment to be paid is 100% of the increment

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

in years 1-5, 95% in years 6-10, 90% in years 11-20, and 85% in years 21-30. In fiscal year 2017, the total assessed value of \$150,021,979 after supplemental adjustments for TIRZ #1 was an increase of \$70,665,125 over the base fiscal year 2011 assessed value and resulted in \$458,739 of property tax revenue recorded in the TIRZ Fund as part of All Other Special Revenue Funds.

On December 18, 2012, the City Council approved a Tax Increment Financing Reinvestment Zone (TIRZ #2) for the purpose of dedicating 40% of the increase in tax revenues generated within the TIRZ district for development in the Westpark Industrial District for a total of 25 years. In fiscal year 2017, the assessed value of \$2,401,349 after supplemental adjustments was an increase of \$2,281,891 over the base fiscal year 2014 assessed value and resulted in \$6,237 of property tax revenue recorded in the TIRZ Fund as part of All Other Special Revenue Funds. Denton County participates in the zone and based on their tax rate and a participation contribution of 40% of the County's tax rate, \$2,267 of property tax revenue was generated for Fiscal Year 2017.

The City created the Rayzor Ranch Public Improvement District No. 1 in 2014 for the undertaking and financing of public improvements authorized by Chapter 372 of the Texas Local Government Code. The project is located on the City's northern sector, east of Interstate 35, and encompasses approximately 229.693 contiguous acres. The estimated costs of the proposed public improvements total \$40 million. The authorized improvement costs will be apportioned 100% to the District. The method of assessment will impose equal shares of the costs of the proposed public improvements on parcels that are similarly benefited. No City property will be assessed, and the City will not be obligated to pay any assessments.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

C. Receivables

Receivables at September 30, 2017 for the City's individual major funds and other funds (non-major funds, internal service funds and fiduciary funds), including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Electric	
Receivables:						
Taxes	\$ 7,469,233	\$ 407,405	\$ -	\$ 214,671	\$ -	
Accounts	128,183	-	-	37,051	8,662,796	
Accrued interest	114,667	23,756	844,263	71,123	1,194,113	
Unbilled utility service	-	-	-	-	9,588,752	
Other - EMS Services	3,813,536	-	-	-	-	
Other	4,493,371	-	-	274,934	1,594,228	
Gross receivables	16,018,990	431,161	844,263	597,779	21,039,889	
Less: Allowance for uncollectibles	(4,964,654)	(156,730)	-	(32,282)	(552,881)	
Net total receivables	<u>\$11,054,336</u>	<u>\$ 274,431</u>	<u>\$ 844,263</u>	<u>\$ 565,497</u>	<u>\$ 20,487,008</u>	
					Internal Service Funds	Total
Receivables:	Water	Wastewater	Solid Waste	Airport		
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,091,309
Accounts	1,979,056	1,729,454	1,622,388	52,709	6,535	14,218,172
Accrued interest	334,113	239,035	187,484	14,940	79,104	3,102,598
Unbilled utility service	2,518,450	1,642,663	1,680,224	-	-	15,430,089
Other - EMS Services	-	-	-	-	-	3,813,536
Other	-	-	-	176,042	297,527	6,836,102
Gross receivables	4,831,619	3,611,152	3,490,096	243,691	383,166	51,491,806
Less: Allowance for uncollectibles	(126,308)	(281,778)	(103,545)	(3,575)	(417)	(6,222,170)
Net total receivables	<u>\$ 4,705,311</u>	<u>\$ 3,329,374</u>	<u>\$ 3,386,551</u>	<u>\$ 240,116</u>	<u>\$ 382,749</u>	<u>\$ 45,269,636</u>

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

D. Capital assets

Capital asset balances and transactions for the year ended September 30, 2017 are summarized below and on the following page.

	Balance at October 1, 2016	Increases	Transfers and Decreases	Balance at September 30, 2017
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 16,511,038	\$ 5,167,958	\$ -	\$ 21,678,996
Construction in progress	55,954,816	39,503,499	(38,776,653)	56,681,662
Total capital assets not being depreciated	72,465,854	44,671,457	(38,776,653)	78,360,658
Capital assets being depreciated:				
Buildings	60,198,181	6,652,860	-	66,851,041
Infrastructure	247,724,610	22,088,767	(26,275)	269,787,102
Machinery, equipment, and other improvements	96,103,422	13,855,022	(5,319,803)	104,638,641
Total capital assets being depreciated	404,026,213	42,596,649	(5,346,078)	441,276,784
Less accumulated depreciation for:				
Buildings	25,016,438	1,662,662	-	26,679,100
Infrastructure	153,559,659	8,793,598	-	162,353,257
Machinery, equipment, and other improvements	60,825,440	8,226,074	(5,103,856)	63,947,658
Total accumulated depreciation	239,401,537	18,682,334	(5,103,856)	252,980,015
Total capital assets, being depreciated, net	164,624,676	23,914,315	(242,222)	188,296,769
Governmental activities capital assets, net	<u>\$ 237,090,530</u>	<u>\$ 68,585,772</u>	<u>\$ (39,018,875)</u>	<u>\$ 266,657,427</u>

(continued)

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

	Balance at October 1, 2016	Increases	Transfers and Decreases	Balance at September 30, 2017
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 27,181,732	\$ 2,230,870	\$ -	\$ 29,412,602
Construction in progress	236,954,779	234,290,618	(115,812,033)	355,433,364
Total capital assets not being depreciated	264,136,511	236,521,488	(115,812,033)	384,845,966
Capital assets being depreciated:				
Buildings	19,811,055	4,152,892	-	23,963,947
Landfill improvements	25,733,757	1,308,890	-	27,042,647
Water rights	69,883,098	-	-	69,883,098
Infrastructure	483,042,987	35,986,864	26,275	519,056,126
Plant, machinery, equipment, and other improvements	366,045,897	86,948,283	(5,876,057)	447,118,123
Total capital assets being depreciated	964,516,794	128,396,929	(5,849,782)	1,087,063,941
Less accumulated depreciation for:				
Buildings	7,371,790	582,856	-	7,954,646
Landfill improvements	20,397,268	2,933,670	-	23,330,938
Water rights	19,052,407	695,989	-	19,748,396
Infrastructure	143,414,747	12,190,652	-	155,605,399
Plant, machinery, equipment, and other improvements	170,583,430	18,582,018	(5,339,489)	183,825,959
Total accumulated depreciation	360,819,642	34,985,185	(5,339,489)	390,465,338
Total capital assets, being depreciated, net	603,697,152	93,411,744	(510,293)	696,598,603
Business-type activities capital assets, net	<u>\$ 867,833,663</u>	<u>\$ 329,933,232</u>	<u>\$ (116,322,326)</u>	<u>\$ 1,081,444,569</u>

Transfers and decreases include \$71,332 (\$24,840 in related accumulated depreciation) transferred from Governmental Activities to Business-Type Equipment.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Depreciation expense was charged to activities of funds/functions/programs as follows:

Governmental activities:	
General government	\$ 2,479,806
Public Safety	3,025,318
Public Works	8,574,092
Parks & Recreation	1,978,376
Capital assets held by the internal service funds are charged to the various functions based upon usage	
	<u>2,624,742</u>
Total depreciation expense - governmental activities	<u><u>\$ 18,682,334</u></u>
Business-type activities:	
Electric	\$ 12,056,412
Water	7,621,963
Wastewater	7,406,247
Solid Waste	7,259,584
Airport	<u>640,979</u>
Total depreciation expense - business-type activities	<u><u>\$ 34,985,185</u></u>

Construction commitments:

The City has several major construction/capital projects planned or in progress as of September 30, 2017. These projects are evidenced by contractual commitments with contractors and include:

Project	Spent-to-Date	Remaining Commitment
Denton Energy Center	\$ 126,724,201	\$ 77,969,569
Mayhill Widening - Phase 4 Construction	3,123,636	33,446,897
Bonnie Brae Widening - Phase 4 Construction	3,314,165	8,538,303
Jim Christal Substation	16,044,299	4,304,082
Landfill Cell 3 Construction	126,625	3,700,358
Bonnie Brae Widening - Phase 1 Engineering	5,151,777	2,447,797
Fire Station #4 Rebuild	4,647,151	1,294,732
Brinker Substation	7,636,925	2,174,688
Fire Training Facility	884,640	1,971,119
Denton North - Arco Transmission Rebuild	334,775	2,006,398
Spencer Interchange Substation Reconstruction	2,006,818	1,631,986
Masch Branch Electrical Switch Station	1,449,290	1,374,722
Mayhill Widening - Phase 1 Engineering	5,272,570	1,332,142
New Landfill Entrance Road Construction	310,209	1,330,750

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

E. Interfund receivables, payables and transfers

A summary of interfund receivables and payables (in thousands) at September 30, 2017, is as follows:

Interfund Receivables:						
	Governmental Major Funds		Business-Type Major Funds			
	General Fund	Non-Major Governmental Funds	Electric	Water	Wastewater	Total
Interfund Payables:						
Non-Major						
Governmental Funds	\$ 392	\$ -	\$ -	\$ -	\$ -	\$ 392
Internal Service Funds	549	-	3,714	622	215	5,100
Total	<u>\$ 941</u>	<u>\$ -</u>	<u>\$ 3,714</u>	<u>\$ 622</u>	<u>\$ 215</u>	<u>\$ 5,492</u>

The more significant interfund receivables and payables include the following:

<u>Interfund receivables</u>	<u>Interfund payables</u>	<u>Amount</u>
Electric fund	Internal service funds-materials management	\$ 3,714,053
Water fund	Internal service funds-materials management	621,449
General fund	Internal service funds-materials management	549,316
Wastewater fund	Internal service funds-materials management	215,182
General fund	Non-Major Governmental Funds	391,722

The outstanding balances between the Electric, Water, Wastewater, and General Fund related to the Materials Management Fund are a result of the cash position in the Materials Management Fund due to inventory purchases. The outstanding balance between the General Fund and the Non-Major Governmental Funds is due to reimbursement timing from outside sources.

Transfers between funds (in thousands) during the year were as follows:

Transfers Out:									
	Governmental Major Funds			Business-Type Major Funds					Total
	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Electric Fund	Water Fund	Wastewater Fund	Solid Waste	Airport Fund	
Transfers In:									
Governmental Major Funds:									
General Fund	\$ -	\$ -	\$ 74	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74
Debt Service Fund	-	-	125	-	-	233	-	-	358
Capital Projects Fund	6,183	-	2,054	295	270	256	48	-	9,106
Non-Major Governmental Funds	105	194	-	669	200	101	-	50	1,319
Electric Fund	-	-	-	-	-	3	-	-	3
Water Fund	-	-	-	-	-	12	-	-	12
Wastewater Fund	-	-	-	-	461	-	280	-	741
Solid Waste Fund	-	-	583	-	-	-	-	-	583
Airport Fund	-	-	654	-	-	-	-	-	654
Internal Service Funds	5	11	-	5	17	5	5	-	48
Total	<u>\$ 6,293</u>	<u>\$ 205</u>	<u>\$ 3,490</u>	<u>\$ 969</u>	<u>\$ 948</u>	<u>\$ 610</u>	<u>\$ 333</u>	<u>\$ 50</u>	<u>\$12,898</u>

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

The more significant transfers include the following:

<u>Transfers from fund</u>	<u>Transfers to fund</u>	<u>Amount</u>
General Fund	Capital Projects	\$6,183,326
Non-Major Gov't – Other Special Revenue Funds	Capital Projects	1,242,529
Non-Major Gov't – Other Special Revenue Funds	Business-type Major Funds	1,236,747
Business-type Major Funds	Non-Major Gov't – Street Improvements	964,276
Non-Major Gov't – Street Improvements	Capital Projects	498,647
Water	Wastewater	460,803

Transfers from the General Fund, from the Non-Major Governmental Fund – Other Special Revenue Funds, and from the Non-Major Governmental Fund – Street Improvements to the Capital Projects Fund were to fund capital projects. Transfers from the Non-Major Governmental Fund – Other Special Revenue Funds to the Business-type Major Funds were related to grant activities in the Airport and Solid Waste Funds. Transfers from the Business-type Major Funds (Electric, Water, and Wastewater) to the Non-Major Governmental Fund – Street Improvements were for bond savings costs related to the issuance of certificates of obligation, which fund street maintenance operations in the Street Improvements Fund. Transfers from the Water Fund to the Wastewater Fund were related to new construction and renovations.

F. Leases

Leases payable represent the remaining principal amounts payable under lease purchase agreements for the acquisition of equipment through the General Fund and Tech Services funds. These leases are recorded as capital leases. Remaining requirements, including interest, under these leases are as follows:

<u>Year</u>	<u>Payments</u>
2018	\$ 505,055
2019	4,171
Total minimum lease payments	\$ 509,226
Less: amount representing interest	11,164
Present value of minimum future lease payments	<u>\$ 498,062</u>

The following schedule provides an analysis of the City's investments in equipment under capital lease arrangements as of September 30, 2017:

Equipment	\$ 8,931,366
Less: Accumulated Depreciation	<u>(8,524,967)</u>
Total	<u>\$ 406,399</u>

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

G. Long-term debt

Long-term liabilities transactions for the year ended September 30, 2017 are summarized as follows below and on the following pages:

	Balance at October 1, 2016	Increases	Decreases / Transfers	Balance at September 30, 2017	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 109,861,174	\$ 27,825,000	\$ 19,418,511	\$ 118,267,663	\$ 9,854,727
Certificates of obligation	34,565,000	17,000,000	2,280,000	49,285,000	5,810,000
Obligations under capital leases	1,373,230	-	875,168	498,062	493,891
Compensated absences payable	11,469,135	7,329,966	6,707,982	12,091,119	5,636,305
Claims payable	4,071,404	23,465,753	23,203,144	4,334,013	2,237,139
Net pension liability	71,562,651	21,830,031	23,790,353	69,602,329	-
Other post employment benefits	5,401,904	2,027,786	330,905	7,098,785	-
Unamortized premium/(discounts)	9,250,763	3,334,919	1,591,505	10,994,177	1,654,874
Total governmental long-term liabilities	<u>\$ 247,555,261</u>	<u>\$ 102,813,455</u>	<u>\$ 78,197,568</u>	<u>\$ 272,171,148</u>	<u>\$ 25,686,936</u>
	Balance at October 1, 2016	Increases	Decreases / Transfers	Balance at September 30, 2017	Due Within One Year
Business-type Activities:					
Revenue bonds	\$ -	\$ 214,890,000	\$ -	\$ 214,890,000	\$ -
General obligation bonds	141,063,826	1,280,000	14,666,489	127,677,337	16,330,273
Certificates of obligation	416,465,000	73,800,000	22,645,000	467,620,000	21,945,000
Compensated absences payable	3,006,880	2,751,998	2,720,043	3,038,835	2,537,074
Net pension liability	35,062,028	12,447,613	11,960,194	35,549,447	-
Other post employment benefits	2,946,231	1,178,262	193,684	3,930,809	-
Landfill closure/post-closure	7,211,859	2,801,893	-	10,013,752	-
Unamortized premium/(discounts)	38,514,640	38,024,957	7,510,060	69,029,537	7,677,623
Total business-type activities	<u>644,270,464</u>	<u>347,174,723</u>	<u>59,695,470</u>	<u>931,749,717</u>	<u>48,489,970</u>
Total long-term liabilities	<u>\$ 891,825,725</u>	<u>\$ 449,988,178</u>	<u>\$ 137,893,038</u>	<u>\$ 1,203,920,865</u>	<u>\$ 74,176,906</u>

For Internal Service funds, long-term liabilities are included as part of the above totals for governmental activities. Compensated absences payables and net pension liability balances and payments are based on the assignment of an employee within a fund. Other postemployment benefits are liquidated from the Health Insurance internal service fund, with the retiree subsidy amounts paid predominantly by the General Fund. Claims payable represents an estimate of self-insured claims liability outstanding in the Health Insurance and Risk Retention internal service funds.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

General bonded debt - General bonded debt at September 30, 2017, is comprised of the following:

General Obligation Bonds and Certificates of Obligation Debt	Interest Rate (%)	Issue Date	Final Maturity	Original Amount of Issue	Gross Amount Outstanding at September 30, 2017
General obligation	4.0 to 4.75	2008	2028	\$ 7,300,000	\$ 345,000
General obligation	3.8 to 4.3	2010	2030	4,115,000	3,085,000
General obligation refunding	2.0 to 4.75	2011	2031	2,225,000	1,750,000
General obligation refunding	2.0 to 5.0	2012	2032	14,358,739	10,705,000
General obligation refunding	2.0 to 4.0	2013	2033	10,221,023	8,327,663
General obligation refunding	2.0 to 3.5	2014	2034	7,165,000	4,460,000
General obligation refunding	3.0 to 5.0	2015	2035	36,110,000	34,635,000
General obligation refunding	3.0 to 5.0	2016	2036	27,635,000	27,135,000
General obligation refunding	3.0 to 5.0	2017	2037	27,825,000	27,825,000
Total general obligation bonds				<u>136,954,762</u>	<u>118,267,663</u>
Certificates of obligation	3.0 to 4.625	2008	2028	\$ 7,865,000	\$ 460,000
Certificates of obligation	2.0 to 5.0	2010	2030	2,790,000	720,000
Certificates of obligation	2.0 to 5.0	2011	2031	3,455,000	865,000
Certificates of obligation	2.0 to 5.0	2012	2032	4,490,000	1,090,000
Certificates of obligation	3.0 to 4.0	2013	2033	10,805,000	8,695,000
Certificates of obligation	2.0 to 5.0	2014	2039	8,635,000	8,065,000
Certificates of obligation	2.0 to 5.0	2015	2034	7,420,000	5,850,000
Certificates of obligation	3.0 to 5.0	2016	2036	7,190,000	6,540,000
Certificates of obligation	3.0 to 5.0	2017	2037	17,000,000	17,000,000
Total certificates of obligation				<u>69,650,000</u>	<u>49,285,000</u>
Total general bonded debt				<u>\$ 206,604,762</u>	<u>\$ 167,552,663</u>

[These amounts do not include net unamortized premiums/ (discounts) of \$10,994,177 nor net deferred gain/ (loss) on refunding of (\$2,031,132).]

Proceeds of general obligation bonded debt are restricted to the uses for which they were approved in the bond elections or, in the case of a refunding issuance, to the uses for which the certificates of obligation were originally issued. The City Charter expressly prohibits the use of bond proceeds to fund operating expenses. The general obligations are collateralized by the full faith and credit of the City and, primarily, payable from property taxes.

In prior years, the City defeased general obligation bonds and certificates of obligation by placing the proceeds of new debt in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased debt are not included in the City's financial statements. On September 30, 2017 \$4,510,000 of general obligation bonds and \$2,400,000 of certificates of obligation considered defeased are still outstanding.

In May 2017, the City issued \$90,800,000 (\$73,800,000 of which is included as part of business type activities) in certificates of obligation. The debt was issued to pay the costs of various capital improvements in the Capital Projects Fund (\$17,000,000), Electric (\$60,820,000), and Solid Waste (\$12,980,000).

In May 2017, the City issued \$29,105,000 (\$1,280,000 of which is included as part of business-type activities) of general obligation refunding and improvement bonds. The refunding portion of the bonds' reacquisition price exceeded the net carrying amount of the old debt by \$307,304 (\$43,088 of which is reported as a loss

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

in business-type activities). This amount is being amortized over the remaining life of the refunded debt, which is the same as the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over 6 years by \$862,067 and resulted in a net present value savings of \$828,733. The improvement portion of the bonds was issued to pay the costs of various capital improvements in the Capital Projects Fund for \$16,590,000.

Business-type revenue bonds – Revenue bond debt at September 30, 2017, is comprised of the following issues:

Revenue Bonds	Interest Rate (%)	Issue Date	Final Maturity	Original Amount of Issue	Gross Amount Outstanding at September 30, 2017
Utility system	3.25 to 5.0	2017	2037	\$ 214,890,000	\$ 214,890,000
Total revenue bonds				<u>\$ 214,890,000</u>	<u>\$ 214,890,000</u>

[These amounts do not include net unamortized premiums/(discounts) of \$30,379,082.]

The revenue bonds are collateralized by the revenue of the Denton utility system funds (System) and the related interest and sinking fund. The ordinance provides that the revenue of the System is to be used first to pay operating and maintenance expenses of the System and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinance also contains provisions, which among other items restrict the issuance of additional revenue bonds unless certain financial ratios are met. Management believes the City is in compliance with all significant requirements. The interest and sinking fund had a net position balance of \$2,671,250 as of September 30, 2017 and is restricted for debt service.

In prior years, the City defeased revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On September 30, 2017, \$20,290,000 of revenue bonds considered defeased are still outstanding.

In January 2017, the City issued \$214,890,000 (all of which is included as part of business-type activities) in revenue bond debt. The debt was issued to acquire and construct additions and improvements to the City's electric light and power system including new quick start peak power generation facilities.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Business-type general obligation bonds and certificates of obligation – General obligation bonds and certificates of obligation issued for electric, water, wastewater, and solid waste funds at September 30, 2017, is comprised of the following:

General Obligation Bonds and Certificates of Obligation Debt	Interest Rate (%)	Issue Date	Final Maturity	Original Amount of Issue	Gross Amount Outstanding at September 30, 2017
General obligation refunding	3.0 to 5.0	2010	2022	\$ 35,815,000	\$ 17,075,000
General obligation refunding	2.0 to 4.75	2011	2031	8,620,000	2,130,000
General obligation refunding	2.0 to 5.0	2012	2032	19,231,261	13,425,000
General obligation refunding	2.0 to 4.0	2013	2033	513,977	402,337
General obligation refunding	3.0 to 5.0	2014A	2039	27,155,000	24,330,000
General obligation refunding	3.0 to 5.0	2015	2035	1,530,000	1,035,000
General obligation refunding	4.0 to 5.0	2015A	2026	33,945,000	28,280,000
General obligation refunding	3.0 to 5.0	2016	2028	1,295,000	1,295,000
General obligation refunding	3.0 to 5.0	2016A	2030	38,425,000	38,425,000
General obligation refunding	3.0 to 5.0	2017	2022	1,280,000	1,280,000
Total general obligation bonds				<u>167,810,238</u>	<u>127,677,337</u>
Certificates of obligation	4.0 to 5.0	2008	2028	2,820,000	45,000
Certificates of obligation	2.0 to 5.0	2010	2030	58,295,000	40,270,000
Certificates of obligation	2.0 to 5.0	2010	2025	58,820,000	36,435,000
Certificates of obligation	2.0 to 5.0	2011	2031	28,645,000	19,225,000
Certificates of obligation	2.0 to 5.0	2012	2032	40,185,000	29,265,000
Certificates of obligation	3.0 to 4.0	2013	2033	52,715,000	41,280,000
Certificates of obligation	2.0 to 5.0	2014	2039	80,545,000	72,565,000
Certificates of obligation	2.0 to 5.0	2015	2034	85,595,000	80,645,000
Certificates of obligation	3.0 to 5.0	2016	2046	76,115,000	74,090,000
Certificates of obligation	3.0 to 5.0	2017	2047	73,800,000	73,800,000
Total certificates of obligation				<u>557,535,000</u>	<u>467,620,000</u>
Total business-type G.O./C.O. bonds				<u>\$ 725,345,238</u>	<u>\$ 595,297,337</u>

[These amounts do not include net unamortized premiums/ (discounts) of \$38,650,455 nor net deferred gain/ (loss) on refunding of (\$4,407,982.)]

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Schedule of long-term debt maturities

Aggregate maturities of the long-term debt (principal and interest) for the years subsequent to September 30, 2017 are shown below:

Governmental Activities:

Fiscal Year	General Obligation		Certificates of Obligation		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 9,854,727	\$ 4,431,196	\$ 5,810,000	\$ 2,133,660	\$ 493,891	\$ 11,164	\$ 16,158,618	\$ 6,576,020
2019	9,614,980	4,060,101	5,035,000	1,784,850	4,171	-	14,654,151	5,844,951
2020	9,220,424	3,669,501	4,825,000	1,571,837	-	-	14,045,424	5,241,338
2021	9,290,678	3,269,757	4,230,000	1,361,513	-	-	13,520,678	4,631,270
2022	8,765,878	2,871,189	3,650,000	1,171,175	-	-	12,415,878	4,042,364
2023-2027	35,570,976	9,531,868	10,960,000	4,119,819	-	-	46,530,976	13,651,687
2028-2032	21,340,000	4,308,112	9,070,000	2,000,834	-	-	30,410,000	6,308,946
2033-2037	14,610,000	995,184	5,705,000	412,047	-	-	20,315,000	1,407,231
Total	<u>\$ 118,267,663</u>	<u>\$ 33,136,908</u>	<u>\$ 49,285,000</u>	<u>\$ 14,555,735</u>	<u>\$ 498,062</u>	<u>\$ 11,164</u>	<u>\$ 168,050,725</u>	<u>\$ 47,703,807</u>

Business-Type Activities:

Fiscal Year	General Obligation		Certificates of Obligation		Revenue		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 16,330,273	\$ 5,490,642	\$ 21,945,000	\$ 19,773,437	\$ -	\$ 10,685,000	\$ 38,275,273	\$ 35,949,079
2019	18,990,020	4,675,888	22,790,000	18,239,294	-	10,685,000	41,780,020	33,600,182
2020	19,914,576	3,793,394	23,210,000	17,184,794	7,580,000	10,495,500	50,704,576	31,473,688
2021	17,019,322	2,942,088	22,465,000	16,099,082	7,970,000	10,106,750	47,454,322	29,147,920
2022	15,124,122	2,156,195	22,310,000	15,043,049	8,375,000	9,698,125	45,809,122	26,897,369
2023-2027	33,569,024	4,252,700	102,735,000	60,912,479	48,695,000	41,682,125	184,999,024	106,847,304
2028-2032	6,730,000	285,500	94,750,000	39,791,438	62,290,000	28,092,500	163,770,000	68,169,438
2033-2037	-	-	58,055,000	24,232,513	79,980,000	10,397,250	138,035,000	34,629,763
2038-2042	-	-	54,640,000	14,198,175	-	-	54,640,000	14,198,175
2043-2047	-	-	44,720,000	3,322,122	-	-	44,720,000	3,322,122
Total	<u>\$ 127,677,337</u>	<u>\$ 23,596,407</u>	<u>\$ 467,620,000</u>	<u>\$ 228,796,383</u>	<u>\$ 214,890,000</u>	<u>\$ 131,842,250</u>	<u>\$ 810,187,337</u>	<u>\$ 384,235,040</u>

[These amounts do not include net unamortized premiums/ (discounts) of \$80,023,714 nor net deferred gain/ (loss) on refunding of (\$6,439,114).]

Bonds authorized and unissued

General obligation bonds authorized but unissued as of September 30, 2017 amounted to \$53,785,000. When issued, the proceeds will be allocated to the applicable street, public safety, drainage, and parks projects.

H. Landfill closure and post-closure cost

State and federal laws and regulations require the City to place a final cover on its Mayhill Road landfill site upon closure and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only upon anticipated closure, the City reports a portion of these costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Based on a model created by a 2017 engineering study, total landfill closure and post-closure cost increased from \$16,706,340 at September 30, 2016 to \$20,351,142 at September 30, 2017. The \$10,013,752 reported as landfill closure and post-closure care liability is a \$2,801,893 increase from the \$7,211,859 liability reported on September 30, 2016. This liability represents the cumulative amount incurred to date based on the use of 46.9% of the estimated capacity of the entire landfill at September 30, 2017.

Based on this estimate, the remaining potential estimated liability for closure and post-closure care of the entire landfill is \$16,590,680. The City will recognize the remaining estimated cost of closure and post-closure care as the remaining capacity is filled. These amounts are based on what it would cost to perform closure and post-closure care in 2017. Actual cost may fluctuate due to inflation, changes in technology, or changes in regulations. The landfill has a remaining life of 11 years, and the City expects to close the landfill in fiscal year 2028.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

The solid waste fund has provided for a reservation and designation of cash and investments of \$8,654,114 at September 30, 2017, and anticipates increasing the reserve in future periods as the closure and post-closure activities are carried out.

V. OTHER INFORMATION

A. Pension plans

Texas Municipal Retirement Plan

Plan description

The City of Denton participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly-available comprehensive annual financial report (CAFR) obtainable at www.tmrs.com.

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

Benefits provided

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

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

Upon retirement, benefits depend on the sum of the employee's contributions, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. Prior service credit, granted by each city joining TMRS, is a monetary credit equal to the accumulated value of the percentage of prior service credit adopted times and employee's deposits that would have been made, based on the average salary prior to participation, for the number of months the employee has been employed, accruing 3% annual interest, and including the matching ratio adopted by the City. Monetary credits for service since the plan began (or current service credits) are a percent (200%) of the employee's accumulated contributions. In addition, the City grants on an annually repeating basis, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming the current member deposit rate of the City (7%) has always been in effect. The computation also assumes the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, and increased by the city match currently in effect (200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted. The plan provisions also include an annually repeating basis cost of living adjustments for retirees equal to 70% of the change in the consumer price index.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after five years.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

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	520
Inactive employees entitled to but not yet receiving benefits	478
Active employees	<u>1,245</u>
Total	<u>2,243</u>

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.23% and 17.30% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$14,648,606 and were equal to the required contributions.

Net pension liability

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

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

(EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, TMRS's actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

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

Discount rate

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

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Changes in the net pension liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 409,277,260	\$ 324,618,549	\$ 84,658,711
Changes for the year:			
Service cost	13,925,238	-	13,925,238
Interest	27,656,654	-	27,656,654
Difference between expected and actual experience	763,589	-	763,589
Contributions - employer	-	14,046,860	(14,046,860)
Contributions - employee	-	5,712,464	(5,712,464)
Net investment income	-	21,947,635	(21,947,635)
Benefit payments, including refunds of employee contributions	(13,023,330)	(13,023,330)	-
Administrative expense	-	(247,766)	247,766
Other changes	-	(13,349)	13,349
Net changes	29,322,151	28,422,514	899,637
Balance at 12/31/2016	<u>\$ 438,599,411</u>	<u>\$ 353,041,063</u>	<u>\$ 85,558,348</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 151,647,722	\$ 85,558,348	\$ 31,623,977

Pension plan fiduciary net position

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

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2017, the City recognized pension expense of \$19,051,014. This amount is included as part of personal services expenses.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 14,589,173	\$ (28,706)
Contributions subsequent to the measurement date	11,269,409	-
Differences between expected and actual economic experience	613,276	(984,869)
Difference in assumption changes	-	(256,929)
Total	<u>\$ 26,471,858</u>	<u>\$ (1,270,504)</u>

\$11,269,409 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the City's fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31st	
2017	\$ 4,832,223
2018	4,832,224
2019	4,112,336
2020	143,138
2021	12,024
Total	<u>\$13,931,945</u>

Supplemental death benefit fund

The City of Denton also participates in the cost-sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group term life insurance coverage to active and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1st of any year to be effective the following January 1st.

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other postemployment benefit" (OPEB) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the TMRS Pension Trust Fund.

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined by an annual actuarial valuation and is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

SDBF are pooled for investment purposes with those of the Pension Trust Fund described above. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for OPEB.

The City's contributions to the TMRS SDBF for the fiscal years ended September 30, 2015, 2016, and 2017, were \$133,686, \$149,630, and \$152,556, respectively, which equaled the required contributions each year.

Denton Firemen's Relief and Retirement Plan

Plan description

The City contributes to the retirement plan for firefighters in the Denton Fire Department known as the Denton Firemen's Relief and Retirement Fund (the Fund). The Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fund are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. The plan is administered by the Board of Trustees of the Denton Firemen's Relief and Retirement Fund. The City does not have access to nor can it utilize assets within the retirement plan trust. The Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Denton Firemen's Relief and Retirement Fund at P.O. Box 2375, Denton, Texas 76202. See that report for all information about the plan fiduciary net position.

Benefits provided

Firefighters in the Denton Fire Department are covered by the Denton Firemen's Relief and Retirement Fund which provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighters may retire at age 50 with 20 years of service. A partially-vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. If a terminated firefighter has a partially vested benefit, the firefighter may retire starting on the date they would have both completed 20 years of service if they had remained a Denton firefighter and attained age 50. As of the December 31, 2015 actuarial valuation date, the plan effective January 1, 2011 provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 2.59% of Highest 36-Month Average Salary for each year of service.

A retiring firefighter who is at least age 52 with at least 22 years of service has the option to elect the Retroactive Deferred Retirement Option Plan (RETRO DROP) which will provide a lump sum benefit and a reduced monthly benefit. The reduced monthly benefit is based on the service and Highest 36-Month Average Salary as if the firefighter had terminated employment on their selected RETRO DROP benefit calculation date, which is no earlier than the later of the date the firefighter meets the age 52 and 22 years of service requirements and the date four years prior to the date the firefighter actually retires. Upon retirement, the member will receive, in addition to the monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the Fund after the RETRO DROP benefit calculation date plus (2) the total of the monthly retirement benefits the member would have received between the RETRO DROP benefit calculation date and the date retired under the plan. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

There is no provision for automatic postretirement benefit increases. The Fund has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases.

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NOTES TO BASIC FINANCIAL STATEMENTS (continued)
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Employees covered by benefit terms

In the December 31, 2015 actuarial valuation, the following numbers of members were covered by the Fund:

Inactive employees or beneficiaries currently receiving benefits	84
Inactive employees entitled to but not yet receiving benefits	2
Active employees	176
Total	262

Contributions

The contribution provisions of the Fund are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

The funding policy of the Denton Firemen's Relief and Retirement Fund requires contributions equal to 12.6% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The City currently contributes according to a City ordinance the same percentage of payroll the City contributes to the Texas Municipal Retirement System for other employees each calendar year. The City contribution rate was 17.41% in calendar year 2016 and 17.48% in calendar year 2017 until mid-December when the rate changed to 18.5%. The December 31, 2015 actuarial valuation includes the assumption that the city contribution rate will average 15.5% over the UAAL amortization period. The costs of administering the plan are paid from the Fund assets. The City's contributions to the Fund for the year ended September 30, 2017 were \$2,814,029.

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. The board selects investments and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the calendar year ending December 31, 2016, the money-weighted rate of return on pension plan investments was 10.17%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the Fund must first be approved by an eligible actuary, certifying the contribution commitment by the firefighters and the assumed city contribution rate together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability (UAAL). The number of years needed to amortize the plan's UAAL is actuarially determined using an open, level percentage of payroll method.

Net pension liability

The City of Denton's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 and rolled forward to December 31, 2016.

Actuarial assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% per year
Overall payroll growth	3.00% per year, plus promotion, step and longevity increases that vary by service
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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SEPTEMBER 30, 2017

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 5.00%) and by adding expected inflation (2.50%). In addition, the final 6.75% assumption was selected by “rounding down” and thereby reflects a reduction of 0.75% for adverse deviation. The target allocation and expected arithmetic net 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)
Equities		
Large Cap Domestic	40.0%	5.90%
Small/Mid Cap Domestic	10.0%	6.40%
International Developed	10.0%	6.40%
Alternatives		
Master Limited Partnerships	8.0%	7.90%
Real Estate	15.0%	4.40%
Fixed Income	10.0%	0.90%
Cash	7.0%	0.00%
Total	100.0%	

Discount rate

The discount rate used to measure the total pension liability was 6.75%. No projection of cash flows was used to determine the discount rate because the December 31, 2015 actuarial valuation showed expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 32 years. Because of the 32-year amortization period of the UAAL, the pension plan’s fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Changes in the net pension liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 89,942,685	\$ 67,976,717	\$ 21,965,968
Changes for the year:			
Service cost	3,089,911	-	3,089,911
Interest	6,135,588	-	6,135,588
Contributions - employer	-	2,759,844	(2,759,844)
Contributions - employee	-	1,997,155	(1,997,155)
Net investment income	-	6,935,215	(6,935,215)
Benefit payments, including refunds of employee contributions	(4,270,006)	(4,270,006)	-
Administrative expense	-	(94,175)	94,175
Other changes	-	-	-
Net changes	4,955,493	7,328,033	(2,372,540)
Balance at 12/31/2016	<u>\$ 94,898,178</u>	<u>\$ 75,304,750</u>	<u>\$ 19,593,428</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 31,679,502	\$ 19,593,428	\$ 9,414,393

Pension plan fiduciary net position

The plan fiduciary net position reported above is the same as reported by the Fund. Detailed information about the plan fiduciary net position is available in the Fund's separately issued audited financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2017, the City recognized pension expense of \$3,983,918. Amounts recognized in the fiscal year represent changes between the current and prior year measurement dates. This amount is included as part of personnel services expenses.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
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At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the Fund from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	\$ 5,058,092	\$ (1,866,823)
Contributions subsequent to the measurement date	2,152,993	-
Differences between expected and actual economic experience	-	(1,641,453)
Difference in assumption changes	1,855,036	-
Total	<u>\$ 9,066,121</u>	<u>\$ (3,508,276)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$2,152,993 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 and the City's fiscal year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31st	
2017	\$ 1,263,085
2018	1,263,085
2019	1,214,160
2020	(439,253)
2021	27,452
Thereafter	76,323
Total	<u>\$ 3,404,852</u>

B. Post-employment benefits other than pensions (OPEB)

The cost of post-employment healthcare benefits, from an accrual accounting perspective, similar to the cost of pension benefits, should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. According to the requirements of GASB Statement No. 45 for the fiscal year ended September 30, 2017, the City recognizes the cost of post-employment healthcare in the year the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be amortized over 30 years, the first period commencing with the fiscal year ending September 30, 2008.

Plan description

The City provides post-employment medical care (OPEB) for retired employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City's group health insurance plans, which covers both active and retired members. The benefits, benefit levels, and contribution rates are recommended annually by the City management as part of the budget process. Any changes in rate subsidies for retirees are approved by the City Council. Since

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

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.

Benefits provided

The City provides post-employment medical, dental, and vision care benefits to its retirees. To be eligible for benefits, an employee must qualify for retirement under the Texas Municipal Retirement System or the Denton Firemen's Relief and Retirement Plan. Retirees must make a one-time irrevocable decision to choose benefits at the time of retirement, after that their eligibility for the benefits ceases. However, retirees can move between plans and can add and drop dependents based on qualifying events.

All medical care benefits are provided through the City's self-insured health plan. The benefit levels are the same as those afforded to active employees.

Funding policy

The plan premium rates are recommended annually by City management and approved by the City Council as part of the annual budget. The retiree's contribution is the full amount of the actuarially determined blended premium rate less a subsidy dependent upon years of service at retirement. By providing retirees with access to the City's healthcare plans based on the same rates it charges to active employees, the City is in effect providing a subsidy to retirees. This implied subsidy exists because, on average, retiree health care costs are higher than active employee healthcare costs. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through paying the higher rate for active employees each year. The City contributes \$40 per month for each five-year increment of service, up to \$200 per month, toward the cost of retiree coverage. The full cost for dental and vision is paid by the retiree. Retirees are required to enroll in Medicare Part B once eligible (age 65) and are moved into a fully-insured Medicare Supplement plan at that time. The same City contribution level applies to the supplement.

Annual OPEB costs and Net OPEB obligation

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

The City's annual OPEB cost for the current year and the related information are as follows at September 30, 2017:

Annual required contribution	\$ 3,438,549
Interest on prior year net OPEB obligation	333,925
Adjustment to annual required contribution	<u>(566,426)</u>
Annual OPEB cost	3,206,048
Contributions made	<u>(524,589)</u>
Increase in net OPEB obligation	2,681,459
Net OPEB obligation - beginning of year	<u>8,348,135</u>
Net OPEB obligation - end of year	<u><u>\$11,029,594</u></u>
Percentage of OPEB costs contributed	16.4%

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Funded status and funding progress

The funded status of the plan as of the actuarial measurement date of December 31, 2015 was as follows:

Actuarial accrued liability	\$ 25,361,327
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	<u>\$ 25,361,327</u>
 Funded ratio	 0.0%
Covered payroll	\$ 98,668,427
Unfunded actuarial accrued liability as a percentage of covered payroll	 25.7%

Three-Year Trend Information for OPEB Funding

Year ending	9/30/2017	9/30/2016	9/30/2015
Annual OPEB costs	\$ 3,206,048	\$ 3,279,833	\$ 1,716,639
Actual contributions	\$ 524,589	\$ 630,522	\$ 671,072
Percent contributed	16.4%	19.2%	39.1%
Net OPEB obligation	\$11,029,594	\$ 8,348,135	\$ 5,698,824

The schedule of funding progress, presented as “Required Supplementary Information” (Exhibit XIII) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions of the City’s retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial methods and assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The Projected Unit Credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant method and assumptions used for this fiscal year valuation as shown on the following page were as follows:

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Actuarial Assumptions

	12/31/15
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Amortization period	22 years, closed
Asset valuation method	N/A
Investment rate of return	4.0%, net of expenses
Inflation rate	2.5%
Payroll growth	N/A
Healthcare inflation rate	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years

Medical reimbursements

The federal government may provide the city subsidy per the Medicare Part D Prescription Drug Subsidy Program for providing healthcare for Medicare eligible employees. As the City does not participate in these subsidies, any current and future year subsidies are not recognized as a reduction to the actuarial accrued liability.

C. Deferred compensation plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. For the calendar years 2016 and 2017, the plan, available to all permanent City employees, permitted them to defer, until future years, up to \$18,000. Employees who are age 50 or older may contribute an amount not to exceed \$24,000. Employees who are within three years of retirement eligibility may elect to participate in a catch-up provision allowed by Section 457, which has an annual maximum contribution amount of \$36,000. The withdrawal of deferred compensation funds is only available to employees by loan, termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are, until paid or made available to the employee or other beneficiary, solely the property and rights of the employees. Accordingly, the assets and associated liability of the plan are not included in the City's financial statements.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

D. Self-insurance plan

The City has established a self-insurance plan for liability and workers' compensation claims in the Risk Retention Fund. Accrued claims payable include provisions for claims reported and claims incurred but not reported. The provision for reported claims is determined by estimating the amount which will ultimately be paid for each claimant. The provision for claims incurred but not yet reported is estimated based on actuarial studies.

It is the policy of the City of Denton not to purchase commercial insurance for workers' compensation claims or general liability. Commercial liability insurance coverage is purchased for airport operations, emergency medical services, take-home vehicles, and employee theft and dishonesty. Additionally, excess insurance is purchased for general liability, auto liability, public officials, and workers' compensation exposures. The City reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

In January 2008, the City started a self-insured group employee health insurance plan. Claims are paid from the Health Insurance Fund, which has an annually negotiated stop loss provision.

The City's costs associated with the self-insurance plans are interfund transactions. Accordingly, they are treated as operating revenues of the Internal Service Risk Retention Fund and Health Insurance Fund and operating expenditures (expenses) of the other funds and employee payroll deductions.

Claims liabilities are re-evaluated periodically to take into consideration settlement of claims, new claims and other factors. As of September 30, 2017 the estimated value of these liabilities was \$4,334,013. Changes in balances of claims liabilities during fiscal years 2017 and 2016 were as follows:

	Claims Liability Beginning of Fiscal Year	Claims and Change in Estimates	Claims Payments	Claims Liability End of Fiscal Year
Workers' Compensation				
2017	\$ 1,887,296	\$ 1,059,062	\$ 1,284,456	\$ 1,661,902
2016	2,418,984	51,307	582,995	1,887,296
General Liability				
2017	\$ 609,030	\$ 442,108	\$ 206,366	\$ 844,772
2016	523,794	577,677	492,441	609,030
Health Insurance				
2017	\$ 1,575,078	\$ 21,964,583	\$ 21,712,322	\$ 1,827,339
2016	1,780,201	20,229,928	20,435,051	1,575,078

On September 30, 2017, the City of Denton held additional amounts in unrestricted net position of \$863,295 in the Risk Retention Fund and \$4,843,341 in the Health Insurance Fund for payment of claims. There were no significant reductions in insurance coverage from coverage in the prior year, and the amount of settlements did not exceed insurance coverage in the current year or in any of the past three fiscal years.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

E. Commitments and contingencies

Agreement with TMPA

In 1976, the City, along with the cities of Bryan, Greenville, and Garland, Texas (the Cities) entered into a Power Sales Contract with the Texas Municipal Power Agency (TMPA). TMPA was created through concurrent ordinances of the Cities and is governed by a Board of Directors consisting of eight members, two appointed by the governing body of each city. Under the terms of the agreement, TMPA agreed to construct or acquire electric generating plants to supply energy and power to the Cities for a period of not less than 35 years. The Cities in turn agreed to purchase all future power and energy requirements in excess of the amounts generated by their systems from TMPA at prices intended to cover operating costs and retirement of debt. In the event that revenues are insufficient to cover all costs and retire the outstanding debt, each of the cities has guaranteed a portion of the unpaid debt based, generally, upon its pro rata share of the energy delivered to consumers in the prior operating year.

TMPA, a municipal corporation, is governed by a Board of Directors consisting of eight members. The governing body of each of the four Cities appoints two members to the Board. An affirmative vote of five Directors, plus a weighted majority vote based on the respective energy usage of the Cities, is required for major decisions.

The City pays TMPA a pro-rated monthly charge based on the City's contractual portion of TMPA's annual fixed operating costs and debt service payments, which is currently 21.3%.

As of September 30, 2017, total TMPA long-term debt outstanding was approximately \$301,629,000. The City's portion of this debt due to contractual obligations with TMPA is \$21,395,608, all due in the next fiscal year (\$21,175,395 of principal and \$220,213 in related interest).

In January 2016 and again in June 2017, TMPA issued requests for proposals (RFPs) regarding the proposed sale of the agency's generation and transmission assets. Certain proposals received in connection with the 2016 RFP were pursued in 2016 and into 2017, but negotiations were ultimately discontinued. TMPA received additional proposals in the summer and fall of 2017 and is reviewing them.

The proposals involve two cooperating entities, neither of which is a governmental entity. One proposer is interested in ownership of Gibbons Creek, and the other proposer has expressed interest in acquiring a portion of TMPA's transmission facilities. The proposals are under evaluation by TMPA, and negotiations with the proposers have not yet commenced.

TMPA management anticipates, that if any negotiations are pursued with respect to the sale proposals, that (i) none of TMPA's generation assets would be transferred prior to September 1, 2018, and (ii) none of TMPA's transmission assets would be transferred prior to the first date, September 1, 2020, when all transmission debt is subject to optional or mandatory redemption or could otherwise be prepaid.

Effective September 1, 2016, TMPA and the Member Cities entered into a Joint Operating Agreement (JOA). In general, the purposes of the JOA include: (i) funding TMPA operations such as mine reclamation, transmission service, and plant decommissioning following expiration of the Power Sales Contract (PSC); (ii) subject to certain exceptions, requiring Member City approval for the issuance of new debt, the execution of certain significant contracts, and the sale of property exceeding \$10 million in value; (iii) specifying provisions for determining how costs of TMPA and proceeds from the sale of assets are to be allocated among the Member Cities; (iv) providing for the establishment by TMPA of reserve funds for the decommissioning of the plant and the indemnification of TMPA Board Members and Member City officials, employees, contractors, and agents; and (v) dividing the operations of TMPA into three business functions (mine, generation, and transmission) and requiring separate budgets and books for each business function.

The PSC provides upon dissolution of TMPA, the assets of TMPA automatically being transferred to the Member Cities, with each Member City receiving an undivided interest in the assets of TMPA in proportion to the amount paid by the Member City to TMPA. The JOA requires TMPA to periodically make this calculation for each business unit, and sets out formulas for making these calculations. Under the JOA, these

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

ownership calculations are relevant not only to the allocation of assets upon dissolution of TMPA, but also to the allocation of certain proceeds from the sale of assets, and in some cases, the allocation of TMPA costs. At the request of a majority of the Member Cities, TMPA is required by the JOA to transfer a divided interest in the transmission system to each Member City. Under this partition process, the objective is for each City to receive ownership of transmission facilities in the vicinity of the Member City, and in proportion to the Member City's ownership interest in the transmission business. Any such transfer of transmission assets must be in compliance with relevant bond covenants, including those requiring defeasance of all or a portion of transmission debt.

The JOA includes a reclamation plan for the mine, requires the development of a decommissioning plan, and sets out standards for environmental remediation. TMPA is required to comply with these plans and standards.

Under the JOA, in discharging its contractual obligations, including mine reclamation, decommissioning, transmission service, environmental remediation, indemnification, and other obligations, TMPA is rendering services to the Member Cities. The JOA obligates each Member City to pay the cost of these services, and to collect rates and charges for electric service sufficient to enable it to pay to TMPA all amounts due under the JOA for these services. A Member City's payment obligations under the JOA are payable exclusively from such electric utility revenues, and constitute an operating expense of its electric system.

Unless terminated earlier through the mutual consent of all parties, the JOA remains in effect until the dissolution of TMPA and the winding up of its affairs.

Effective September 1, 2016, the JOA was amended (Amendment No. 1). The primary purposes of the amendment were to authorize the sale of Gibbons Creek and the sale of the Southern 345 kV Transmission System and to authorize the issuance of refunding bonds in connection with such sales. As the sale contemplated by Amendment No. 1 did not occur, by its own terms, Amendment No. 1 ceased to have any force or effect. Effective September 22, 2017, the JOA was amended a second time (Amendment No. 2). The purposes of this amendment are to: continue TMPA's authority to issue mine reclamation bonds as had been contemplated in Amendment No. 1; revise the dates on which the separate budgets of the JOA become effective; authorize TMPA to sell certain mining and transmission assets, provided the sales do not exceed in value certain financial thresholds, and provided the sales comply with bond covenants; and allow for an extension to the term of the PSC, applicable only to the cities notifying TMPA of the extension, in order to complete a period of seasonal operation in 2018, or such other period of time as desired by the notifying cities.

Effective October 17, 2017, Gibbons Creek entered into a seasonal operations mode, operating during the summer months only (June-September). This change was authorized by ERCOT through a Notification of Suspension of Operations (NSO) Initial and Final Determination, dated August 2017. Due to the significant decline in service utility of the generation assets, such assets were deemed impaired as of September 30, 2017. The City also impaired its TMPA prepaid purchase power due to the seasonality changes. Of the \$43,378,333 balance in TMPA prepaid purchase power outstanding as of September 30, 2017 as part of the City's total prepaid balance in the Electric fund, \$26,930,415 was impaired and recorded as an Other Asset to be amortized over 7.5 years.

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

Selected financial statement information of TMPA is as follows:

	September 30	
	(Unaudited)	
	2017	2016
	(000s)	(000s)
Operating revenues	\$277,155	\$ 273,272
Operating expenses	121,245	112,506
Operating income	155,910	160,766
Other non-operating sources (uses)	2,922	393
Current unrestricted assets	52,658	59,520
Total assets and deferred outflows	407,095	581,325
Long-term debt – Noncurrent	207,824	299,350
Total liabilities	362,208	548,931
Total net position	44,887	32,394

Financial statements for TMPA are available from the TMPA website www.texasmpa.org.

Encumbrances

As discussed in note I.D., Budgetary information, encumbrances are utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	\$ 714,286
Capital Projects Fund	56,177,907
Nonmajor Governmental Funds	1,249,777
Total	<u>\$ 58,141,970</u>

F. Tax Abatements

The City enters into economic development incentive agreements with entities to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax, and enhance the property tax base and economic vitality of the City. Some agreements provide for an abatement of property taxes, while others provide for a rebate of a portion of sales and use tax or a portion of ad valorem (property) tax, as established per the agreements. The incentives are performance-based, and the City generally expects to receive increased revenue as a result of the agreements. These incentive agreements require approval by a City Council ordinance and are authorized under Chapter 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code and Chapter 380 of the Texas Local Government Code.

Property Tax Abatements

Tax abatements under Chapter 312 of the Texas Tax Code allow the City to designate tax reinvestment zones and negotiate tax abatement agreements with applicants. In 1990, the City Council adopted a resolution setting guidelines and criteria for granting abatements in the reinvestment zones which specifically notes incentives are limited to companies which create new wealth and do not adversely affect existing businesses operating within the City. The abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer's property by a percentage specified in the agreement, and the taxpayer will pay taxes on the lower assessed value during the term of the agreement. For the fiscal year ended September 30, 2017, the City abated property taxes totaling \$876,148 under this program, as detailed in the following agreements:

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

- Aldi Foods – In 2007, a 100% tax abatement on all new valuation, except land, for a term of up to seven years was granted to Aldi Foods for a 500,000 square foot distribution center. The abatement amount is based on the cost incurred by Aldi to construct a road to the site. The abatement amount for the current fiscal year was \$384,478, which was the final abatement on this agreement.
- Target – In 2010, a 65% tax abatement agreement for a \$100 million project was granted to Target Corporation for a period of five years for a 400,000 square foot frozen and refrigerated food distribution center and to help offset costs to improve Airport and Corbin roads. In the event of a failure to meet the conditions of the agreement, an increased assessed value of real property of at least \$5 million, the agreement provides for a full refund all abatements previously granted plus interest. The abatement amount for the current fiscal year was \$452,331, with one year remaining.
- Tetra Pak – In 2013, a 65% tax abatement agreement for a term of four years was granted to Tetra Pak Materials LP on new capital investments, including a 32,000 square foot expansion of their facility and relocating their corporate headquarter operations from Chicago to Denton. In the event of a failure to meet the conditions of the agreement, an increased assessed value of real property of at least \$5 million, the agreement provides for a full refund all abatements previously granted plus interest. The abatement amount for the current fiscal year was \$39,339, with two years remaining.

The City has two additional abatement agreements not listed above becoming effective in future fiscal years should the grantees meet the obligations of the agreements.

380 Agreements

The City Council has the authority under Chapter 380 of the Texas Local Government Code to grant or loan City funds in order to accomplish specific economic development goals. These incentives are considered on a case-by-case basis. The City has target industry sectors for recruitment that will be given priority consideration: aviation/aerospace, advanced manufacturing, renewable energy, research and development, information technology, supply chain for existing primary employers, and significant consumers of municipal utilities. Consideration may also be given for projects causing infill redevelopment or other desirable development objectives and/or any other activity which the City Council determines meets a specific public purpose for economic development.

Each agreement is based on the contribution in sales or property tax or both. For the fiscal year ended September 30, 2017, the City rebated sales taxes totaling \$2,630,275 and property taxes totaling \$155,503, as detailed in the following agreements:

- Denton Crossing – In 2001, an agreement was approved for the 500,000 square foot, \$50 million Denton Crossing retail center. The grantee receives one-third of the City sales tax, or 0.5%, generated by the project for a maximum of 15 years as reimbursement for public improvement costs related to the project not to exceed \$7,250,000 plus accrued interest. The tax rebates initiated in 2005 and will terminate in 2020. The tax rebate amount for the current fiscal year was \$547,701.
- Unicorn Lake – In 2004, an agreement was approved for Unicorn Lake, an urban-style mixed-use development. The grantee receives one-third of the City sales tax, or 0.5%, generated by the project for a maximum of fifteen years as reimbursement for public improvement costs related to the project not to exceed \$6,664,901 plus accrued interest. The tax rebates initiated in 2010 and will terminate in 2025. The tax rebate amount for the current fiscal year was \$71,158.
- Rayzor Ranch – In 2007, an agreement was approved for the Rayzor Ranch mixed-use development. The 410-acre project will have over one million square feet of retail and will be built in two phases. The agreement provides a sales tax reimbursement of one half of the City sales tax, or 0.75%, generated by the project for public improvement costs, which include the widening of a state highway bisecting the project. The grantee will receive a maximum of \$20 million over a 15 year term for phase

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

one and a maximum of \$48 million over a term of 20 years for phase two. An additional 15% of the City sales tax, or 0.225%, was added to both phases to offset the hotel and convention center costs until \$5 million is reached. As of the current fiscal year, only phase one has initiated tax rebates which was \$1,180,743.

- Schlumberger – In 2010, an agreement was granted to Grand Mesa for the renovation and equipping of the building for Schlumberger. The agreement was assigned to Schlumberger Technology Corporation in 2012 equal to one half of new property tax revenue generated for their 150,000 square foot regional maintenance facility. Agreement thresholds require maintaining \$5 million in real property improvements and business personal property valuation and the creation of 80 jobs with an average wage of \$45,000. The term of the agreement is seven years and will terminate in 2018. In the event of a failure to meet the conditions of the agreement, the agreement provides for a full refund of all rebates previously granted plus interest. The tax rebate amount for the current fiscal year was \$40,388.
- Golden Triangle Mall – In 2011, an agreement was approved for a major renovation of the Golden Triangle Mall. A threshold of a minimum \$45 to \$65 million was required as an investment into the property to receive a one half share of the sales tax resulting from the renovations, less a monthly mall baseline amount established at \$95,898. The total grant payments are estimated between \$7.12 and \$9.5 million and may not exceed 15.83% of the required investment. The tax rebates initiated in 2016 and will terminate in 2035. The tax rebate amount for the current fiscal year was \$132,577.
- Mayday Manufacturing – In 2012, an agreement was approved for Mayday Manufacturing/Tailwind Technologies for the relocation of the business and expansion of a manufacturing facility. The agreement provides a 75% tax rebate on the increment of property tax revenue generated above the base valuation for a period of ten years. In the event of a failure to meet the conditions of the agreement, an increased assessed value of real property of at least \$3 million, the agreement provides for a 50% refund of all rebates previously granted. The tax rebate amount for the current fiscal year was \$26,621.
- West Gate Business Park – In 2015, an agreement was approved for West Gate Business Park (WGBP) for industrial development and provided for a 70% rebate of increased City property tax revenue generated for a period of ten years. WGBP includes three multi-tenant buildings totaling 413,000 square feet of new industrial/manufacturing space in the City. In 2016 the agreement was amended to include a 70% rebate on building 1 improvements and to add a one-time grant payment in the amount of \$50,000. A separate tax abatement agreement for building 2 and 3 was also approved so WGBP could be eligible to apply for a tax abatement from Denton County. The terms of the agreement include a 60% abatement of City property taxes attributable to new capital investments resulting in an increased assessed value of real property improvements. The amount of the abatement may be increased by an additional 5% for a national headquarters and/or 10% for a supplier in support of major employers in Denton. The one-time grant payment of \$50,000 occurred in the current fiscal year along with the tax rebate amount of \$38,494.
- WinCo Foods – In 2015, an agreement was approved for WinCo Foods for a \$135 million, 800,000 square foot distribution facility expected to create 165 jobs with an annual payroll of around \$7.2 million. In the event of a failure to meet the conditions of the agreement, the agreement provides for a 20-50% refund of all rebates previously granted, depending on the timing of a failure. The agreement provides for the following:

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

- A reimbursement of up to \$1,000,000 in infrastructure financing for water improvements and up to \$865,000 for sewer improvements. This payment was made during the current fiscal year from the Water and Wastewater funds.
 - A grant equal to 100% of local Sales and Use Tax receipts collected by the City on construction materials and furniture, fixtures, and equipment purchases for the development of the property. The tax rebate amount for the current fiscal year was \$361,030.
 - A grant equal to 100% of the incremental property tax generated by the property and paid into the Tax Increment Fund by both the City and the County, paid annually until the full reimbursement of the project costs for public improvements is reached. These payments have not initiated as of the current fiscal year.
 - A grant equal to 60% of City property taxes attributable to improvements resulting in an increase of assessed value of real property improvements and tangible personal property, paid annually until full reimbursement of the project costs for public improvements is reached. Once this full reimbursement is reached, the 60% property tax rebate will continue for a period of four years as long as the increase in investment in improvements is \$50 million excluding purchase price of the property. These payments have not initiated as of the current fiscal year.
- O'Reilly Hotel Partners Denton – In 2015, an agreement was approved for O'Reilly Hotel Partners Denton for a convention center with a hotel and restaurant located in the Rayzor Ranch Town Center. The agreement includes a 100% rebate of the property tax (excluding land), hotel occupancy tax, and sales tax generated by the project. The term is for a maximum of 25 years or a combined principal (\$28 million) and interest (\$26 million) amount of \$54 million is reached, whichever comes first. The agreement also includes 100% rebate of the construction sales tax up to \$850,000, then 50% thereafter. In the event of a failure to meet the conditions of the agreement, the agreement provides for a 100% refund of all rebates granted in the previous year. The tax rebate amount for the current fiscal year was accrued and is scheduled for payment in the following fiscal year in the amount of \$377,066.

The City has two additional Chapter 380 agreements not listed above becoming effective in future fiscal years should the grantees meet the obligations of the agreements.

G. Litigation

Various claims and lawsuits are pending against the City. In accordance with GAAP, those judgments considered “probable” are accrued, while those claims and judgments considered “reasonably possible” are disclosed but not accrued. In the opinion of City management and legal counsel, the maximum amount of all significant claims considered reasonably possible, excluding condemnation proceedings and the item described following, is approximately \$500,000 as of September 30, 2017. Potential losses after insurance coverage on all probable claims and lawsuits will not have a material effect on the City's financial position as of September 30, 2017.

H. Subsequent events

The City has evaluated all events or transactions that occurred after September 30, 2017 up through March 2, 2018, the date the financial statements were issued. There were no significant subsequent events to disclose.

I. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following statements which became effective for the fiscal year 2017.

Statement No. 77 “Tax Abatement Disclosures” – This Statement requires governments entering into tax abatement agreements to provide certain disclosures regarding these commitments such as

CITY OF DENTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2017

descriptions of the agreements, the amounts abated, and any additional commitments by the governments in addition to tax abatements. The Statement had no financial impact. See note V.F. for disclosure requirements.

The following statements for the GASB are effective for future fiscal years ending as listed below. The City is in the process of reviewing and evaluating these statements and their potential impact on the City's financial statements.

Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" (OPEB) – This Statement replaces the requirements of Statements No. 45 and No. 57 related to OPEB. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions, OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information. This statement changes the focus of OPEB accounting from whether the employer is responsibly funding the OPEB benefits to reporting a liability in the financial statements for any unfunded portion of benefits earned to-date, and it will become effective for the City in fiscal year 2018.

Statement No. 80 "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14" – This Statement amends the blending requirements established in Statement No. 14, adding additional criterion required for blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This Statement will become effective for the City in fiscal year 2018.

Statement No. 81 "Irrevocable Split-Interest Agreements" – This Statement establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts in which a donor irrevocably transfers resources to an intermediary, who administers these resources for the unconditional benefit of a government and at least one other beneficiary. This Statement will become effective for the City in fiscal year 2018.

Statement No. 82 "Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73" – This Statement establishes and clarifies accounting and financial reporting requirements for pensions provided to the employees of state or local governmental employers, specifically (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. This Statement will become effective for the City in fiscal year 2018.

CITY OF DENTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST THREE FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)¹

Exhibit XII

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016
Total pension liability:			
Service Cost	\$ 10,667,694	\$ 12,615,957	\$ 13,925,238
Interest (on the total pension liability)	25,182,941	26,905,700	27,656,654
Difference between expected and actual experience	(171,241)	(1,525,911)	763,589
Change of assumptions	-	(428,789)	-
Benefit payments, including refunds of employee contributions	(11,387,617)	(12,697,735)	(13,023,330)
Net change in total pension liability	24,291,777	24,869,222	29,322,151
Total pension liability - beginning	360,116,261	384,408,038	409,277,260
Total pension liability - ending (a)	<u>\$ 384,408,038</u>	<u>\$ 409,277,260</u>	<u>\$ 438,599,411</u>
Plan fiduciary net position:			
Contributions - employer	\$ 13,065,763	\$ 13,615,410	\$ 14,046,860
Contributions - employee	4,991,415	5,365,231	5,712,464
Net investment income	16,867,596	469,530	21,947,635
Benefit payments, including refunds of employee contributions	(11,387,617)	(12,697,735)	(13,023,330)
Administrative expense	(176,083)	(285,957)	(247,766)
Other	(14,477)	(14,123)	(13,349)
Net change in plan fiduciary net position	23,346,597	6,452,356	28,422,514
Plan fiduciary net position - beginning	294,819,596	318,166,193	324,618,549
Plan fiduciary net position - ending (b)	<u>\$ 318,166,193</u>	<u>\$ 324,618,549</u>	<u>\$ 353,041,063</u>
Net pension liability - ending (a) - (b)	<u>\$ 66,241,845</u>	<u>\$ 84,658,711</u>	<u>\$ 85,558,348</u>
Plan fiduciary net position as a percentage of total pension liability	82.77%	79.32%	80.49%
Covered employee payroll	\$ 71,025,494	\$ 76,646,157	\$ 81,481,789
Net pension liability as a percentage of covered employee payroll	93.26%	110.45%	105.00%

¹Schedule is intended to present information for ten years. Additional years of information will be presented as they become available.

CITY OF DENTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
DENTON FIREMEN'S RELIEF AND RETIREMENT FUND
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST THREE FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)¹

Exhibit XIII

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016
Total pension liability:			
Service Cost	\$ 2,747,253	\$ 2,836,263	\$ 3,089,911
Interest (on the total pension liability)	5,685,396	5,998,959	6,135,588
Difference between expected and actual experience	-	(2,063,421)	-
Change of assumptions	-	2,331,908	-
Benefit payments, including refunds of employee contributions	(4,036,009)	(4,048,358)	(4,270,006)
Net change in total pension liability	4,396,640	5,055,351	4,955,493
Total pension liability - beginning	80,490,694	84,887,334	89,942,685
Total pension liability - ending (a)	<u>\$ 84,887,334</u>	<u>\$ 89,942,685</u>	<u>\$ 94,898,178</u>
Plan fiduciary net position:			
Contributions - employer	\$ 2,566,875	\$ 2,567,219	\$ 2,759,844
Contributions - employee	1,745,419	1,803,064	1,997,155
Net investment income	4,411,066	(3,287,188)	6,935,215
Benefit payments, including refunds of employee contributions	(4,036,009)	(4,048,358)	(4,270,006)
Administrative expense	(81,005)	(76,538)	(94,175)
Net change in plan fiduciary net position	4,606,346	(3,041,801)	7,328,033
Plan fiduciary net position - beginning	66,412,172	71,018,518	67,976,717
Plan fiduciary net position - ending (b)	<u>\$ 71,018,518</u>	<u>\$ 67,976,717</u>	<u>\$ 75,304,750</u>
Net pension liability - ending (a) - (b)	<u>\$ 13,868,816</u>	<u>\$ 21,965,968</u>	<u>\$ 19,593,428</u>
Plan fiduciary net position as a percentage of total pension liability	83.66%	75.58%	79.35%
Covered employee payroll	\$ 14,238,486	\$ 14,310,032	\$ 15,850,437
Net pension liability as a percentage of covered employee payroll	97.40%	153.50%	123.61%

¹Schedule is intended to present information for ten years. Additional years of information will be presented as they become available.

CITY OF DENTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS (Unaudited)

Exhibit XIV

	(a)	(b)	(c)	(d)	
Fiscal Year	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Excess (Deficiency) (b) - (a)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (b)/(d)
2008	\$ 7,082,769	\$ 7,082,769	\$ -	\$ 53,908,360	13.14%
2009	9,709,279	7,952,938	(1,756,341)	57,250,108	13.89%
2010	11,194,086	8,849,577	(2,344,509)	59,457,345	14.88%
2011	11,580,085	9,579,358	(2,000,727)	58,139,688	16.48%
2012	11,475,702	10,435,001	(1,040,701)	60,340,212	17.29%
2013	12,174,640	12,171,482	(3,158)	64,940,234	18.74%
2014	12,912,746	12,911,461	(1,285)	69,872,024	18.48%
2015	13,507,272	13,507,272	-	75,379,632	17.92%
2016	14,435,638	14,435,638	-	83,127,601	17.37%
2017	14,648,606	14,648,606	-	84,753,377	17.28%

Notes to Schedule:

Actuarial determined contribution rates are calculated as of December 31st and become effective in January, 13 months later. Contributions above do not include contributions into the supplemental death benefit fund.

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 (Equivalent Single Amortization Period of 18.1 years)
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% 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.
Mortality	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.

CITY OF DENTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FIREMEN'S RELIEF AND RETIREMENT FUND
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS (Unaudited)

Exhibit XV

	(a)	(b)	(c)	(d)	
		Contributions in Relation to the Annual Required Contributions	Contribution Excess (Deficiency) (b) - (a)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll (b)/(d)
Fiscal Year	Annual Required Contributions				
2008	\$ 1,426,906	\$ 1,426,906	\$ -	\$ 11,890,880	12.00%
2009	1,747,908	1,747,908	-	12,485,061	14.00%
2010	1,976,419	1,976,419	-	13,070,041	15.12%
2011	2,141,662	2,141,662	-	12,828,446	16.69%
2012	2,253,667	2,253,667	-	12,899,800	17.47%
2013	2,579,453	2,579,453	-	13,629,825	18.93%
2014	2,576,652	2,576,652	-	13,828,070	18.63%
2015	2,535,719	2,535,719	-	14,029,051	18.07%
2016	2,819,046	2,819,046	-	15,540,826	18.14%
2017	2,814,029	2,814,029	-	16,113,770	17.46%

Notes to Schedule:

Annual required contributions are not actuarially determined. According to a City ordinance, since January 2010 the City contributes to the Firemen's Relief and Retirement Fund at the same percentage of payroll that the City contributes to the Texas Municipal Retirement System for other employees. The rates are calculated as of December 31st and become effective in January, 13 months later.

While the contribution requirements are not actuarially determined, state law requires an actuary certify the assumed City contribution rate is adequate. Methods and assumptions used to contribution adequacy for 2017:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 Years
Asset Valuation Method	5-year smoothing
Inflation	2.50%
Salary Increases	3.00% annual general compensation increase plus promotion, step, and longevity increases which average 1.98% per year over a 30-year career
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Retirement Age	Average expected age at retirement of 57
Mortality	RP-2000 Combined Healthy Mortality Tables projected to 2024 by scale AA

CITY OF DENTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POST EMPLOYMENT BENEFITS
FUNDING PROGRESS AND CONTRIBUTIONS
LAST THREE VALUATION YEARS (Unaudited)

Exhibit XVI

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Percent
2012	10/1/2011	-	\$ 12,565,747	\$ (12,565,747)	0%
2014	10/1/2013	-	13,715,238	(13,715,238)	0
2016	10/1/2015	-	25,361,327	(25,361,327)	0

Fiscal Year	Covered Payroll	UAAL as Percent of Covered Payroll	Annual Required Contributions	Actual Contributions	Percent Contributed
2012	\$ 71,315,386	17.6%	\$ 1,582,219	\$ 1,481,210	94%
2014	79,692,115	17.2	1,821,243	909,288	50
2016	100,867,147	25.7	3,438,549	630,522	18



APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Certificates,
assuming no material changes in facts or law.*

[Issue Date]

**CITY OF DENTON, TEXAS
CERTIFICATES OF OBLIGATION
SERIES 2018
DATED MAY 15, 2018
IN THE PRINCIPAL AMOUNT OF \$_____**

AS BOND COUNSEL FOR THE CITY OF DENTON, TEXAS (the "Issuer") in connection with the issuance of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Certificates. Terms used herein and not otherwise defined shall have the meaning given in the Ordinance of the Issuer authorizing the issuance and sale of the Certificates (the "Ordinance").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the City Council of the Issuer relating to the issuance of the Certificates, including the Ordinance and other documents authorizing and relating to the issuance of the Certificates; and we have examined various certificates and documents executed by officers and officials of the Issuer upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Certificates (Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights generally, or by general principles of equity which permit the exercise of judicial discretion, the Certificates will constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from limited surplus revenues (not to exceed \$1,000) of the Issuer's Utility System (consisting of the Issuer's combined waterworks system, sanitary sewer system, drainage system and electric light and power system), remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the Issuer's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the Net Revenues of the Issuer's Utility System.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Certificates (i) is excludable from the gross income of the owners thereof and (ii) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on

certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates, including the amount, accrual or receipt of interest on, the Certificates. Owners of the Certificates should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, and the sufficiency of the pledged surplus net revenues of, the Issuer. 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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

Respectfully,

Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds,
assuming no material changes in facts or law.*

[Issue Date]

**CITY OF DENTON, TEXAS
GENERAL OBLIGATION BONDS
SERIES 2018
DATED MAY 15, 2018
IN THE PRINCIPAL AMOUNT OF \$_____**

AS BOND COUNSEL FOR THE CITY OF DENTON, TEXAS (the "Issuer") in connection with the issuance of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the Ordinance of the Issuer authorizing the issuance and sale of the Bonds (the "Ordinance").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the City Council of the Issuer relating to the issuance of the Bonds, including the Ordinance and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the Issuer upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, or by general principles of equity which permit the exercise of judicial discretion, the Bonds will constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, within the limit prescribed by law.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed and refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. 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 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 Bonds as includable in gross income for federal income tax purposes.

Respectfully,

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