

OFFICIAL STATEMENT

Dated June 26, 2018

Rating:
S&P: "AA-"
(See "OTHER INFORMATION -
RATING" 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 HAVE BEEN DESIGNATED AS
"QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$2,185,000
CITY OF BELTON, TEXAS
(Bell County)

COMBINATION TAX AND LIMITED REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: July 19, 2018

Due: August 1, as shown on the inside cover page

Interest accrues from the date of initial delivery

PAYMENT TERMS . . . Interest on the \$2,185,000 City of Belton, Texas, Combination Tax and Limited Revenue Certificates of Obligation, Series 2018 (the "Certificates") will accrue from the date of initial delivery and will be payable February 1 and August 1 of each year commencing February 1, 2019, until maturity or earlier 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, New York, New York ("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. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE CERTIFICATES – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and Chapter 1502, Texas Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City of Belton, Texas (the "City"). The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing, 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 combined water and sewer system, not to exceed \$1,000 as provided in the Ordinance (see "THE CERTIFICATES – AUTHORITY FOR ISSUANCE" and "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations incurred or to be incurred by the City for (1) constructing, improving, renovating and/or equipping City parks, including the purchase of land for the expansion of Heritage Park and (2) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuance in connection with the certificates. See "THE CERTIFICATES – PURPOSE".

CUSIP PREFIX: 081059
MATURITY SCHEDULE
SEE INSIDE COVER PAGE

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Austin, Texas (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on July 19, 2018.

MATURITY SCHEDULE

8/1 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2019	\$ 25,000	5.000%	1.850%	081059KE6
2020	30,000	5.000%	2.000%	081059KF3
2021	30,000	5.000%	2.150%	081059KG1
2022	30,000	5.000%	2.300%	081059KH9
2023	40,000	5.000%	2.400%	081059KJ5
2024	95,000	5.000%	2.500%	081059KK2
2025	100,000	5.000%	2.550%	081059KL0
2026	265,000	3.000%	2.600%	081059KM8
2027	280,000	3.000%	2.700% ⁽²⁾	081059KN6
2028	415,000	3.000%	2.800% ⁽²⁾	081059KP1
2029	430,000	3.000%	2.900% ⁽²⁾	081059KQ9
2030	445,000	3.000%	3.000%	081059KR7

(Interest Accrues from the Date of Initial Delivery)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ LLC 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. CUSIP numbers are included herein solely for the convenience of the owners of the Certificates. Neither the City, the Financial Advisor nor the Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (2) Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on August 1, 2026, the first optional redemption date for such Certificates at a redemption price of par, plus accrued interest to the redemption date.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2027, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”).

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This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell Certificates in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

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 promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein 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.

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

NEITHER THE CITY NOR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Term Expires</u>
Marion Grayson Mayor	May 2020
Craig Pearson Mayor Pro-Tem	May 2019
David K. Leigh Councilmember	May 2019
Wayne Carpenter Councilmember	May 2020
John Holmes Councilmember	May 2019
Dan Kirkley Councilmember	May 2019
Guy O'Banion Councilmember	May 2020

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>
Sam A. Listi	City Manager
Brandon Bozon	Finance Director
Amy M. Casey, TRMC	City Clerk

CONSULTANTS AND ADVISORS

Auditors Jaynes Reitmeier Boyd & Therrell, P.C.
Waco, Texas

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

Financial Advisor..... Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Brandon Bozon Finance Director City of Belton 100 South Davis Street Belton, Texas 76513 (254) 933-5800 (254) 933-5859 Fax	or	Jennifer Ritter Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 (512) 275-7300 (512) 275-7305 Fax
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OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Belton, Texas is a political subdivision located in Bell County, and operating as a home-rule city under the laws of the State of Texas and a charter most recently amended by voters in 2005. The City was incorporated in 1852. The City operates under the City 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 17.42 square miles in area (see “INTRODUCTION – DESCRIPTION OF THE CITY”).
- THE CERTIFICATES** The \$2,185,000 Combination Tax and Limited Revenue Certificates of Obligation, Series 2018 (the “Certificates”) are issued as serial Certificates maturing on August 1 in the years 2019 through and including 2030 (see “THE CERTIFICATES – GENERAL”).
- PAYMENT OF INTEREST** Interest on the Certificates will accrue from the date of initial delivery and is payable February 1, 2019, and each August 1 and February 1 thereafter until maturity or prior redemption (see “THE CERTIFICATES – GENERAL” and “THE CERTIFICATES – OPTIONAL REDEMPTION”).
- AUTHORITY FOR ISSUANCE** The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City on June 26, 2018 authorizing the issuance of the Certificates (the “Ordinance”). See “THE CERTIFICATES – AUTHORITY FOR ISSUANCE.”
- SECURITY FOR THE CERTIFICATES** The Certificates constitute direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance and a limited pledge of surplus net revenues of the City’s combined water and sewer system not to exceed \$1,000 (see “THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT”).
- OPTIONAL REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2027, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”).
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the 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 the caption “TAX MATTERS.”
- QUALIFIED TAX-EXEMPT CERTIFICATES** The City has designated the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – QUALIFIED TAX-EXEMPT OBLIGATIONS”).
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations incurred or to be incurred by the City for (1) constructing, improving, renovating and/or equipping City parks, including the purchase of land for the expansion of Heritage Park and (2) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuance in connection with the certificates (see “THE CERTIFICATES – USE OF PROCEEDS”).
- RATING** The Certificates and the outstanding debt of the City have been rated “AA-” by S&P Global Ratings (“S&P”) without regard to credit enhancement (see “OTHER INFORMATION – RATING”).

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

PAYMENT RECORD The City has never defaulted on payment of its debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Funded Tax Debt ⁽²⁾	Per Capita Funded Tax Debt	Ratio Funded Debt to Taxable Assessed Valuation	% of Total Tax Collections
2014	19,809	\$ 835,898,027	\$ 42,198	\$ 20,275,000	\$ 1,024	2.43%	99.26%
2015	20,517	894,861,696	43,616	28,705,000	1,399	3.21%	99.78%
2016	21,214	946,371,122	44,611	26,545,000	1,251	2.80%	100.13%
2017	21,721	997,593,915	45,928	34,205,000	1,575	3.43%	99.65%
2018	22,155	1,057,247,293	47,720	34,420,000 ⁽³⁾	1,554 ⁽³⁾	3.26% ⁽³⁾	95.98% ⁽⁴⁾

(1) Estimates provided by the City. Fiscal Year 2015 assumes a 1% population growth.

(2) Includes self-supporting debt. See Table 1 for more information.

(3) Projected; includes the Certificates.

(4) Partial collections as of March 31, 2018.

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**OFFICIAL STATEMENT
RELATING TO
\$2,185,000
CITY OF BELTON, TEXAS
COMBINATION TAX AND LIMITED REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$2,185,000 City of Belton, Texas Combination Tax and Limited Revenue Certificates of Obligation, Series 2018 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates 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, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City most recently amended its Home Rule Charter in 2005. The City operates under the City 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 17.42 square miles in area. For more information regarding the City, see "APPENDIX A – GENERAL INFORMATION REGARDING THE CITY."

THE CERTIFICATES

GENERAL . . . The Certificates are dated July 19, 2018, and mature on August 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 1, 2019 and each August 1 and February 1 thereafter, accruing from the date of initial delivery until maturity or earlier redemption.

The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described herein (the "Book-Entry-Only System"). **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "BOOK-ENTRY-ONLY SYSTEM" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and the Ordinance adopted by the City Council of the City on June 26, 2018.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance and a limited pledge of surplus net revenues of the City's combined water and sewer system not to exceed \$1,000.

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 of the City within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits the City's 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 a maximum tax rate of \$1.90 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.14 of the \$1.90 maximum tax rate for ad valorem tax obligation debt service. The City's 2017/18 tax rate is \$0.6598, of which \$0.1053 is for debt service purposes.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2027, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates

of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot or any other customary random method the Certificates, or portions thereof, within such maturity to be redeemed. If an Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificate called for redemption or any other action premised or any such notice.

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

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of a premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, 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 Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the City so long as a book-entry-only system is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates and such redemption will not be conducted by the City or the Paying/Agent Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Certificates for redemption.

DEFEASANCE . . . General. The Ordinance provides for the defeasance of the Certificates and the termination of the pledge of taxes and revenues and all other general covenants in the Ordinance under certain circumstances. Any Certificate and the interest thereon shall be deemed to be paid, retired and no longer outstanding (“Defeased Obligation”) within the meaning of the Ordinance, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the City to retain the right to call Defeased Obligations to be paid at maturity, when the payment of all principal and interest payable with respect to such Defeased Obligations to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (1) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (2) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or a commercial bank or trust company for such payment (a) lawful money of the United States of America sufficient to make such payment, (b) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure 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 after all Defeased Obligations shall have become due and payable or (c) any combination of (a) and (b). At such time as a Certificate

shall be deemed to be a Defeased Obligation, such Certificate and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities, 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 Obligations, 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 Defeasance Securities..

The deposit under clause (2) above shall be deemed a payment of a Certificate when proper notice of redemption of such Certificates shall have been given, in accordance with the Ordinance. Any money so deposited with the Paying Agent/Registrar or a commercial bank or trust company may at the discretion of the City also be invested in Defeasance Securities, as hereinafter defined, maturing in the amounts and at the times as set forth in the Ordinance, and all income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company that is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Ordinance for the payment of principal of the Certificates and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Certificates and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Obligations shall have become due and payable, the Paying Agent/Registrar or a commercial bank or trust company shall perform the services of Paying Agent/Registrar for such Defeased Obligations the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by the Ordinance.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or a commercial bank or trust company for the payment of Certificates and such Certificates shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Ordinance shall be made without the consent of the registered owner of each Certificate affected thereby.

Retention of Rights. To the extent that, upon the defeasance of any Defeased Obligations to be paid at its maturity, the City retains the right under State law to later call any Defeased Obligations which is subject to redemption (i.e. the Certificates) in accordance with the provisions of the Ordinance, the City may call such Defeased Obligations for redemption upon complying with the provisions of State law and upon the satisfaction of the provisions set forth above regarding such Defeased Obligations as though it was being defeased at the time of the exercise of the option to redeem the Defeased Obligations and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligations.

Investments. Any escrow agreement or other instrument entered into between the City and the Paying Agent/Registrar or a commercial bank or trust company pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or a commercial bank or trust company for the payment of Defeased Obligations may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company which is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, will be remitted to the City.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) 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 adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Certificates. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee's 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 Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding

detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Certificates held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City nor the Purchaser take any responsibility for the accuracy thereof.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Certificates are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Purchaser.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinance, 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 Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . If the book-entry-only system should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the fifteenth business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the 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 Holder of an 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.

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the 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, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner 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 under the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

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

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

Amendments to the Ordinance . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any owners for the purpose of amending or supplementing such Ordinance to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) 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 owners, (4) 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 (5) 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 interest of the owners.

The Ordinance further provides that the owners of the Certificates aggregating in principal amount 51% of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the owners in original principal amount of the then outstanding Certificates no amendment may be made of the purpose of: (1) making any change in the maturity of any of the outstanding Certificates; (2) reducing the rate of interest borne by any of the outstanding Certificates; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (4) modifying the terms of payment of principal or of interest or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations incurred or to be incurred by the City for (1) constructing, improving, renovating and/or equipping City parks, including the purchase of land

for the expansion of Heritage Park and (2) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuance in connection with the certificates.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Certificates will be applied approximately as follows:

Sources:	
Principal	\$ 2,185,000.00
Reoffering Premium	<u>64,644.60</u>
Total Sources	\$ 2,249,644.60
Uses:	
Deposit to Project Fund	\$ 2,167,699.00
Deposit to Debt Service Fund	182.49
Purchaser Discount	28,431.86
Costs of Issuance	<u>53,331.25</u>
Total Uses	\$ 2,249,644.60

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Williamson Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the State's 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 market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which 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 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 three 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 Texas 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 Texas 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 Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant, or upon presentation of a petition must call an election on whether to grant: (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (2) an exemption of up to 20% of the market value of residence homesteads, with the minimum exemption under this provision being \$5,000. 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 taxpayer qualified if (i) the taxpayer died in a year in which the taxpayer qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the taxpayer and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and remains the residence homestead of the surviving spouse.

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

In addition, cities are authorized to refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based upon the disability or age of the owner or (2) the year the city chooses to establish the above-referenced limitation. On the receipt of a petition signed by five percent of

the registered voters of the City, the City must call an election to determine by majority vote whether to establish such a tax limitation. Such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

State law and Article VIII, Section 2, 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 and, effective January 1, 2010, a disabled veteran who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead

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 of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property.

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

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

The City may also enter into tax abatement agreements with companies to encourage economic development. In a tax abatement agreement, the City agrees to not levy a tax on all or a portion of the new value added by a development for a period of up to ten years if the developer must meet certain requirements regarding investment value, job creation, local and minority/women owned business contracting, etc.

The City is authorized, pursuant to Chapter 380, Texas Local Government Code ("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 grant of public fund 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.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By the later of September 30 of each year or the 60th day after the date the certified appraisal roll is received by the City, the City is required to adopt a tax rate per \$100 of each year taxable value for the current year. If the City does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax 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 State's Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held in two separate weeks on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice

be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. 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 State’s 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 State’s 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 which uses an average of the daily price of oil and gas for the prior year. 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 installment due before February 1 of each year and the final installment due before August 1.

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney’s collection fee of up to 20% may be added to the total tax penalty and interest charge. 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 \$10,000; the disabled are granted an exemption of \$1,500 to \$3,000.

The City has **not** granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

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

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

The City does not tax nonbusiness personal property; and the Bell County Tax Appraisal District collects taxes for the City.

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

The City has taken action to tax freeport property.

The City does collect the additional one-half cent sales tax for economic development.

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

The City has adopted a tax abatement policy which permits tax abatements to last for a period of up to 5 years. The City has created four reinvestment zones and entered into six tax abatement agreements which abate taxes on various projects in various amounts.

TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT

2017/18 Market Valuation Established by Bell County Tax Appraisal District (excluding totally exempt property and exempt agricultural use value)	\$ 1,461,995,453
Less Exemptions/Reductions	404,748,160
	<hr/>
2017/18 Net Taxable Assessed Valuation	\$ 1,057,247,293
Debt Payable from Ad Valorem Taxes (as of 5/1/18)	
General Obligation Debt	\$ 34,205,000 ⁽¹⁾
The Certificates	<u>2,185,000</u>
Debt Payable from Ad Valorem Taxes	\$ 36,390,000
Less: Self-Supporting Debt ⁽²⁾	<u>(21,097,174)</u>
Net Debt Payable from Ad Valorem Taxes	\$ 15,292,826
Interest and Sinking Fund (as of 5/1/18)	\$ 169,940
Ratio Net Tax Supported Debt to Taxable Assessed Valuation	1.45%

2018 Estimated Population - 22,155
Per Capita Taxable Assessed Valuation - \$47,720
Per Capita Net Debt Payable from Ad Valorem Taxes - \$690

(1) Excludes the Certificates.

(2) Self-supporting debt payable from the City's water & sewer utility fund, the economic development fund, the drainage fund, and the tax increment reinvestment zone.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9-30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Funded Debt Outstanding at End of Year ⁽²⁾	Ratio G.O. Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2014	19,809	\$ 835,898,027	\$ 42,198	\$ 20,275,000	2.43%	\$ 1,024
2015	20,517	894,861,696	43,616	28,705,000	3.21%	1,399
2016	21,214	946,371,122	44,611	26,545,000	2.80%	1,251
2017	21,721	997,593,915	45,928	34,205,000	3.43%	1,575
2018	22,155	1,057,247,293	47,720	34,420,000 ⁽³⁾	3.26% ⁽³⁾	1,554 ⁽³⁾

(1) Estimates provided by the City. Fiscal Year 2015 assumes a 1% population growth.

(2) Includes debt that is self-supporting. See Table 1 for more information.

(3) Projected; includes the Certificates.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended <u>9-30</u>	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2014	\$ 0.6598	\$ 0.5488	\$ 0.1110	\$5,508,036	98.52%	99.26%
2015	0.6598	0.5425	0.1173	5,904,297	97.91%	99.78%
2016	0.6598	0.5332	0.1266	6,239,069	99.59%	100.13%
2017	0.6598	0.5393	0.1205	6,582,814	98.65%	99.65%
2018	0.6598	0.5545	0.1053	7,007,073	95.98% ⁽¹⁾	95.98% ⁽¹⁾

(1) Partial collections as of March 31, 2018.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Turtle Creek Investments Ltd.	\$ 17,544,250	1.66%
Oncor Electric Delivery Co. LLC	14,384,683	1.36%
Wire Rope Industries	14,123,710	1.34%
Legacy Landing Group Ltd.	11,864,607	1.12%
Wal-Mart Real Estate Business Trust	11,823,998	1.12%
HEB Grocery Company LP	11,757,431	1.11%
Stratasys Direct Manufacturing	10,719,909	1.01%
River Springs at Barge Ranch LP	8,740,643	0.83%
Chappell Hill Equity III Ltd.	7,097,586	0.67%
Colonial Crossing Company Ltd.	6,488,368	0.61%
	<u>\$ 114,545,185</u>	<u>10.83%</u>

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 CERTIFICATES – TAX RATE LIMITATION”).

TABLE 5 – TAX ADEQUACY⁽¹⁾

2018 Principal and Interest Requirements	\$ 1,454,731
\$0.1405 Tax Rate at 98% Collection Produces	\$ 1,455,724
Average Annual Principal and Interest Requirements, 2018-2035	\$ 1,056,487
\$0.1020 Tax Rate at 98% Collection Produces	\$ 1,056,824

(1) Includes the Certificates. Excludes self-supporting ad valorem tax debt. See Table 1 for more information.

TABLE 6 – ESTIMATED OVERLAPPING 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 of the entities listed may have issued additional obligations since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional obligations, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	Total G.O. Tax Debt	Estimated % Applicable	City's Overlapping G.O. Tax Debt
			As of 4/30/2018
Bell County	\$ 119,320,000	6.95%	\$ 8,292,740
Belton Independent School District	230,404,996	37.16%	85,618,497
City of Belton	15,292,826 ⁽¹⁾	100.00%	15,292,826 ⁽¹⁾
Total Direct and Overlapping Net Funded Debt			\$ 109,204,063
Ratio of Direct and Overlapping Net Funded Debt to Taxable Assessed Valuation			10.33% ⁽¹⁾
Per Capita Direct and Overlapping Net Funded Debt			\$ 4,929.09 ⁽¹⁾

(1) Includes the Certificates. Net of self-supported general obligation debt (see Table 1 for more information on self-supporting ad valorem tax debt).

DEBT INFORMATION

TABLE 7 – DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt			The Certificates ⁽¹⁾			Less:	Total
	Principal	Interest	Total	Principal	Interest	Total	Self-Supporting Debt	Debt Service Requirements
2018	\$ 1,970,000	\$ 1,005,426	\$ 2,975,426	\$ -	\$ -	\$ -	\$ 1,520,695	\$ 1,454,731
2019	2,075,000	950,042	3,025,042	25,000	74,968	99,968	1,587,773	1,537,237
2020	2,165,000	890,800	3,055,800	30,000	71,300	101,300	1,611,811	1,545,290
2021	2,245,000	827,857	3,072,857	30,000	69,800	99,800	1,609,065	1,563,591
2022	2,300,000	761,706	3,061,706	30,000	68,300	98,300	1,593,962	1,566,044
2023	2,255,000	692,917	2,947,917	40,000	66,800	106,800	1,844,351	1,210,366
2024	2,005,000	627,774	2,632,774	95,000	64,800	159,800	1,573,807	1,218,767
2025	2,060,000	573,038	2,633,038	100,000	60,050	160,050	1,575,510	1,217,578
2026	1,960,000	516,351	2,476,351	265,000	55,050	320,050	1,576,259	1,220,142
2027	2,005,000	458,472	2,463,472	280,000	47,100	327,100	1,571,843	1,218,729
2028	1,960,000	398,941	2,358,941	415,000	38,700	453,700	1,637,651	1,174,990
2029	1,520,000	338,065	1,858,065	430,000	26,250	456,250	1,249,450	1,064,865
2030	1,560,000	292,102	1,852,102	445,000	13,350	458,350	1,249,450	1,061,002
2031	1,610,000	244,932	1,854,932	-	-	-	1,243,550	611,382
2032	1,660,000	196,250	1,856,250	-	-	-	1,246,900	609,350
2033	1,705,000	146,056	1,851,056	-	-	-	1,244,200	606,856
2034	1,225,000	94,500	1,319,500	-	-	-	1,250,600	68,900
2035	1,260,000	57,750	1,317,750	-	-	-	1,250,800	66,950
2036	665,000	19,950	684,950	-	-	-	684,950	-
	\$ 34,205,000	\$ 9,092,928	\$ 43,297,928	\$ 2,185,000	\$ 656,468	\$ 2,841,468	\$ 27,122,627	\$ 19,016,769

(1) Interest calculated at the rates shown on the inside cover page.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . None

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

OTHER OBLIGATIONS . . . See “Notes to the Financial Statements” in APPENDIX B.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see “APPENDIX B – EXCERPTS FROM THE CITY’S ANNUAL FINANCIAL REPORT”.)

FINANCIAL INFORMATION

TABLE 8 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Taxes	\$ 9,289,312	\$ 8,969,963	\$ 8,780,218	\$ 8,474,429	\$ 7,945,310
Licenses and Permits	331,412	221,395	188,172	205,792	223,636
Intergovernmental	426,858	393,171	329,264	271,356	339,996
Charges for Services	2,743,579	2,589,725	2,526,593	2,434,770	2,409,771
Fines	314,189	367,310	358,012	397,409	349,763
Interest	61,681	21,414	11,910	6,009	7,017
Miscellaneous	265,537	412,848	134,891	127,434	107,226
Total Revenues	<u>\$ 13,432,568</u>	<u>\$ 12,975,826</u>	<u>\$ 12,329,060</u>	<u>\$ 11,917,199</u>	<u>\$ 11,382,719</u>
Expenditures:					
General Government	\$ 1,510,233	\$ 1,555,570	\$ 1,460,659	\$ 1,443,673	\$ 1,274,967
Public Safety	6,485,596	6,489,545	6,189,168	5,963,512	5,703,416
Economic Development	-	-	-	327,937	355,265
Highways and Streets	935,356	924,047	1,061,613	1,029,737	986,341
Culture and Recreation	1,357,934	1,281,494	1,196,792	1,155,054	1,083,562
Refuse Collection	1,123,844	1,079,976	1,027,958	986,098	1,009,519
City Shop	-	-	-	391,983	396,470
Planning and Maintenance	895,277	713,502	701,711	-	-
Total Expenditures	<u>\$ 12,308,240</u>	<u>\$ 12,044,134</u>	<u>\$ 11,637,901</u>	<u>\$ 11,297,994</u>	<u>\$ 10,809,540</u>
Excess (deficiency) of Revenues Over Expenditures	<u>\$ 1,124,328</u>	<u>\$ 931,692</u>	<u>\$ 691,159</u>	<u>\$ 619,205</u>	<u>\$ 573,179</u>
Other Financing Sources:					
Operating Transfers In	\$ 562,000	\$ 459,269	\$ 458,847	\$ 642,075	\$ 399,502
Operating Transfers Out	(1,460,923)	(1,113,199)	(1,010,233)	(1,684,542)	(384,643)
Total Transfers	<u>\$ (898,923)</u>	<u>\$ (653,930)</u>	<u>\$ (551,386)</u>	<u>\$ (1,042,467)</u>	<u>\$ 14,859</u>
Excess of Revenues Over Expenditures	\$ 225,405	\$ 277,762	\$ 139,773	\$ (423,262)	\$ 588,038
Other Adjustments	-	-	-	-	-
Beginning Fund Balance	6,022,115	5,744,353	5,604,580	6,027,842	5,439,804
Ending Fund Balance	<u>\$ 6,247,520</u>	<u>\$ 6,022,115</u>	<u>\$ 5,744,353</u>	<u>\$ 5,604,580</u>	<u>\$ 6,027,842</u>

Source: City’s audited financial statements.

TABLE 9 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.A.T.C.S., 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 Certificates. 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.

Fiscal Year Ended <u>9-30</u>	Total <u>Collected</u>	% of Ad Valorem <u>Tax Levy</u>	Equivalent of Ad Valorem <u>Tax Rate</u>	Per <u>Capita</u>
2014	\$ 3,069,314	55.72%	\$ 0.3672	\$ 155
2015	3,205,411	54.29%	0.3582	156
2016	3,155,659	50.58%	0.3334	149
2017	3,276,982	49.78%	0.3285	151
2018 ⁽¹⁾	1,705,366	24.34%	0.1613	77

(1) Partial collections as of March 31, 2018.

FINANCIAL POLICIES

Basis of Accounting . . . The City’s accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability occurred, if measurable, except for unmatured interest on general long-term debt.

Proprietary Fund revenues and expenses are recognized on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred.

Fund Balances . . . Fund balances will be maintained in an amount adequate to assure that any legal requirements are met and that adequate funds are available to meet cash flow requirements. It is the City’s intention to maintain in the General Fund and Water and Sewer Fund 15% of the next year’s budgeted expenditures. Sixty days’ of operating expenditures are to be maintained in the Debt Service Fund. Cash balances are to be monitored yearly during budgeting preparation.

Enterprise Fund Transfers to the General Fund . . . The City has adopted a financial policy whereby an annual transfer is made from the enterprise funds (generally, the water and sewer departments) to the General Fund. The transfer is considered a payment in lieu of taxes and is equal to 5% of the gross revenues of the enterprise fund (prior to 1996, the transfer was 4% of gross revenues).

Use of Bond Proceeds . . . The City’s policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year by the middle of June the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. After review by the Finance Department and the City Manager, a budget of estimated revenues and expenditures is submitted to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with state statutes. The City Council will adopt a budget prior to October 1. If the Council fails to adopt a budget then the budget proposed by the City Manager is deemed to have been adopted.

During the fiscal year, budgetary control is maintained by the monthly review of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that are budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year’s budget.

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INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which 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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch 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 (7) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission (the "SEC") and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a contribution of cash and obligations described in clause (1) which are pledged to the City, and in the City's name and deposited at the time the uninvested 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; (10) 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; (11) 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; (12) no-load money market mutual funds registered with and regulated by the SEC and complies with SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7); and (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

An eligible political subdivision such as the City may enter into hedging transactions, including hedging contracts, related security, credit, and insurance agreements in connection with commodities used the political subdivision in its general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the SEC. The political subdivision may pledge to such contracts or agreements any general or special revenues or funds it is authorized by law to pledge to the payment of any other obligations. The political subdivision's cost under such contract or agreement may be considered an operations and maintenance expense, an acquisition costs, a project cost, or a construction expense.

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 "AAAm" 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.

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 include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships 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, (3) 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 imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City’s investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TABLE 10 – CURRENT INVESTMENTS

As of May 11, 2018, the City’s investable funds were invested in the following categories:

<u>Description</u>	<u>Book Value</u>	<u>Percentage</u>
Cash	\$ 3,954,736	9.99%
Certificates of Deposit	7,000,000	17.69%
TexPool	4,222,200	10.67%
TexPool Prime	7,123,095	18.00%
TexSTAR	3,019,558	7.63%
LOGIC	7,132,993	18.02%
Texas Class	7,125,147	18.00%
Total	<u>\$ 39,577,729</u>	<u>100.00%</u>

As of such date, the market value of the investment portfolio was approximately 100.00% of its book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

OPINION . . . On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, 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 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 Internal Revenue Code of 1986, as amended (the “Code”). Except as stated above, Bond Counsel 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 – FORM OF BOND COUNSEL’S OPINION.”

In rendering its opinion, Bond Counsel will rely upon (a) the City’s federal tax certificate and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Certificates and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates 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 Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel to the City is conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

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. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that 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 Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the projects financed or refinanced with proceeds of the Certificates. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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 Certificates. This discussion is based on Existing Law, which is 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 RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, 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 Certificates, 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 Certificates 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 Certificates 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. owners of Certificates, 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 Certificates under Federal or state law and could affect the market price or marketability of the Certificates. 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 Certificates should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City has designated the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City covenants to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Certificates would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreements for the benefit of the respective registered and beneficial owners of the Certificates. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Certificates. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB currently makes this information publicly available on its Electronic Municipal Market Access System ("EMMA") at <http://emma.msrb.org/>.

ANNUAL REPORTS . . . The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 5 and 7 through 10 and in APPENDIX B. The City will provide this information within 6 months after the end of each fiscal year ending in or after 2018. If audited financial statements are not available when the other information is provided, the City will provide audited financial statements when and if they become available and will provide unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC").

The City's current fiscal year end is September 30. Accordingly, it must provide updated information 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.

EVENT NOTICES . . . The City will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The City will provide notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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 the trustee, if material. (Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement or a trustee.)

The City will also file notice with the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data as described above in “– ANNUAL REPORTS” by the time required.

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

The City may amend its continuing disclosure agreements 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 agreements, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Certificates 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 registered and beneficial owners of the Certificates.

The City may also amend or repeal the provisions of its continuing disclosure agreements 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, and the City also may amend the provisions of its continuing disclosure agreements in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates, giving effect to (i) such provisions as so amended and (ii) any amendments or interpretations of the Rule.

If the City so amends its continuing disclosure agreements as described in this section, it has agreed to include with the next financial information and operating data provided in accordance with its agreements 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 AGREEMENTS . . . During the last five years, the City has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

OTHER INFORMATION

RATING . . . The Certificates and the outstanding debt of the City have been rated “AA-” by S&P Global Ratings (“S&P”) without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION . . . The City is a defendant in various tort claims and lawsuits involving general liability, civil rights actions, and various contractual matters. In the opinion of the City’s management and the City Attorney’s office, the outcome of the pending litigation will not have a material adverse effect on the City’s financial position or operations of the City.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Under the Texas Public Security Procedures Act, Chapter 1201, Texas Government Code, as amended, the Certificates (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (a) an insurance company, (b) a fiduciary or trustee, or (c) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2236, Texas Government Code, as amended, the Certificates 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. See “OTHER INFORMATION – RATING” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. No review has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

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

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE . . . Except as hereinafter noted, Bond Counsel has not verified and has not passed upon, and assumes no responsibility for the accuracy, completeness or fairness of the information and statements contained in the Official Statement. In the performance of its duties, Bond Counsel has reviewed the information relating to the Certificates and the Ordinance contained under the captions “THE CERTIFICATES” (exclusive of subcaptions “BOOK-ENTRY-ONLY SYSTEM”, “SOURCES AND USES OF PROCEEDS”, and “CERTIFICATEHOLDERS’ REMEDIES”) “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (exclusive of the subcaption “COMPLIANCE WITH PRIOR AGREEMENTS”), “OTHER INFORMATION – REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE”, “OTHER INFORMATION – LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS”, and “OTHER INFORMATION – LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE” and “APPENDIX C – FORM OF BOND COUNSEL’S OPINION” contained in the Official Statement and Bond Counsel is of the opinion that such information is a fair and accurate summary of the information purported to be shown therein and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws conform to such state and federal laws. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates.

The legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of 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.

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

The Financial Advisor 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.

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note

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

INITIAL PURCHASER . . . After requesting competitive bids for the Certificates, the City accepted the bid of SAMCO Capital Markets, Inc. (the "Purchaser") to purchase the Certificates at the interest rates shown on the inside cover page of the Official Statement at a price of approximately 101.657% of par. The Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

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

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

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Certificates to the Purchaser at closing, unless extended by the Purchaser. All information with respect to the resale of the Certificates subsequent to the "end of the underwriting period" is the responsibility of the Purchaser.

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

/s/ MARION GRAYSON

Mayor
City of Belton, Texas

ATTEST:

/s/ AMY M. CASEY, TRMC

City Clerk
City of Belton, Texas

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY . . . The City of Belton (the “City”) is located in central Texas on Interstate Highway 35, approximately 45 miles south of Waco and 60 miles north of Austin. Belton is the County Seat of Bell County and is an agricultural, governmental and commercial center in the area. Belton is at the physical center of the Killeen/Temple MSA.

Founded in 1850, the City had a 2010 Census population of 18,216, which was a 8.0% increase over the 2000 Census population of 14,623, which was a 8.5% increase over the 1990 Census population of 12,476, and a 8.5% increase over the 1980 Census population of 10,660. The estimated population of the City in 2017 is 20,133.

Bell County’s population has grown from the 1970 population of 124,483 to an estimate of 277,743 for 2008. Growth is largely due to the continued strength of the military presence at Ft. Hood and the growing sector of manufacturing and distribution concerns along the I-35 corridor. The business sector is strongly influenced by the growing of high tech manufacturing along the High Tech Corridor from San Antonio to Dallas/Fort Worth. The second primary influence to business growth is located on Interstate 35 or NAFTA Highway. This segment will continue to grow as trade with Mexico increases.

Belton offers a quality of life which makes it particularly attractive to business or individuals considering location. Lake Belton and Stillhouse Hollow lakes are located within five minutes driving time from downtown Belton and offer residents over 168 miles of shoreline and excellent fishing, camping and water sport activities.

LOCATION AND TRANSPORTATION . . . Belton’s location is probably one of its strongest assets. Belton is located within 180 miles of every major market within the State of Texas (the “State”). This location gives Belton a unique opportunity for distribution concerns locating within the State. In addition, Belton is located in the center of business activity being generated along the Interstate 35 corridor between San Antonio and the Dallas/Fort Worth area.

Belton is served by an excellent transportation system. Regionally the population is served by private air service at the Draughon Miller airport in Temple and commercial flights are available from the Killeen-Fort Hood Regional Airport. Austin’s international airport is forty five miles south. The business community is served by nine freight lines and two rail lines.

EDUCATION . . . The Belton Independent School District operates 12 public schools with a \$65 million budget. Total enrollment stands at 8,700. The school system is one of Belton’s strongest quality of life assets. The system is widely accepted as an education leader in the area and the State.

In addition to the public school system, higher education is readily available in the community through the University of Mary Hardin-Baylor and Temple College. UMHB was chartered by the Republic of Texas in 1845 and is a fully accredited co-education four year college. In 2009, enrollment is 2,700. The college is governed by a Board of Trustees and is under the auspices of the Baptist General Convention of Texas.

UTILITIES . . . Oncor Electric Delivery serves the City’s electric supplier and Atmos Energy provides natural gas. City water is provided by the City of Belton with 8.33 million gallons of capacity and current average consumption at 3.09 million gallons daily. Wastewater treatment is provided by the Brazos River Authority. The City of Belton and the City of Temple share a common treatment plant with a maximum capacity of 10.0 million gpd.

LABOR MARKET PROFILE

	Bell County	
	May 2018	May 2017
Total Civilian Labor Force	144,036	141,560
Total Unemployment	5,677	5,772
Percent Unemployed	3.9%	4.1%
Total Employment	138,359	135,788

	State of Texas	
	May 2018	May 2017
Total Civilian Labor Force	13,836,477	13,498,726
Total Unemployment	515,248	557,907
Percent Unemployed	3.7%	4.1%
Total Employment	13,321,229	12,940,819

Source: Texas Employment Commission, Austin, Texas

RECREATION AND TOURISM . . . The City has fourteen (14) City parks totaling 145.90 acres which provides two (2) splash pads, ten (10) basketball courts, three (3) large softball fields, six (6) little league size baseball fields, four (4) senior/big league baseball fields, seven (7) large soccer fields, seven (7) covered pavilions, an amphitheater with stage, a one (1) acre fishing lake with covered pier, and numerous covered and uncovered picnic tables with barbecue pits. Three (3) parks have spring fed creeks running through part of the park.

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APPENDIX B

EXCERPTS FROM THE
CITY OF BELTON, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2017

The information contained in this APPENDIX consists of excerpts from the City of Belton, Texas 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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JAYNES REITMEIER BOYD & THERRELL, P.C.
Certified Public Accountants
5400 Bosque Blvd., Ste. 500 | Waco, TX 76710
P.O. Box 7616 | Waco, TX 76714
Main 254.776.4190 | Fax 254.776.8489 | jrbt.com

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor
and Members of the City Council
City of Belton, Texas:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Belton, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, and the schedules of changes in the City's net pension liability and related ratios, and contributions on pages 70 and 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Information (continued)

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.

Jaynes, Reitzmeier, Boyd & Henzell, P.C.

March 8, 2018



Management's Discussion and Analysis

As management of the City of Belton, Texas, we offer readers of the financial statements this narrative discussion and analysis of the financial activities of the City of Belton for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$69,621,228 (*net position*). Of this amount, \$12,464,101 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$2,674,342, primarily due to grants and contributions from third parties.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$10,295,332, a decrease of \$2,867,561 in comparison with the prior year. Of this total amount, \$5,103,448 (49.6 percent) is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (total of the *committed, assigned, and unassigned* components of *fund balance*) for the General Fund was \$5,964,610, or 48.5 percent of total general fund expenditures.
- The City's total outstanding long-term debt increased by \$7,748,150 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City'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 includes other supplementary information intended to furnish additional detail to support 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, and deferred inflows/outflows of resources, 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 changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 19 - 21 of this report.

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

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

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

The City maintains thirty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining and individual fund statements and schedules section of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 22 - 26 of this report.

Proprietary funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer utility and for its drainage utility.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and for the Drainage Fund, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 27 - 29 of this report.

Notes to the financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 – 66 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 70 - 72 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 75 through 90 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$69,621,228 at the close of the most recent fiscal year.

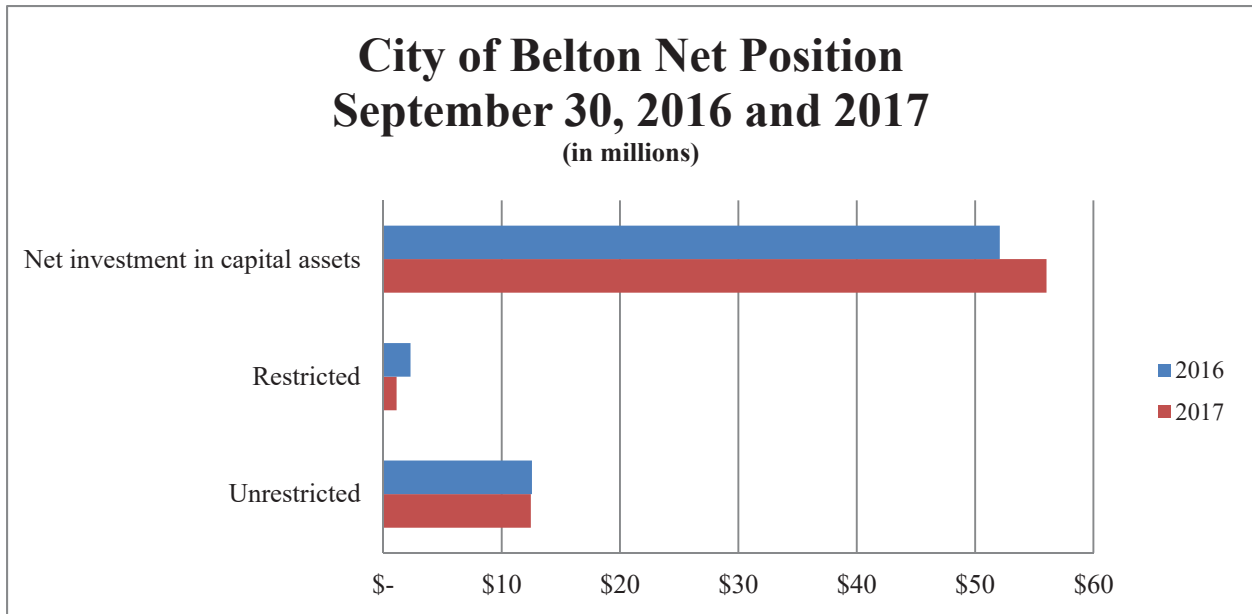
City of Belton Statement of Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 11,828,344	\$ 15,522,126	\$ 20,738,850	\$ 11,096,209	\$ 32,567,194	\$ 26,618,335
Capital assets	36,983,128	34,909,611	39,111,420	36,985,174	76,094,548	71,894,785
Total assets	48,811,472	50,431,737	59,850,270	48,081,383	108,661,742	98,513,120
Total deferred outflows of resources	1,215,869	1,473,987	227,934	283,171	1,443,803	1,757,158
Long-term liabilities outstanding	16,751,964	16,314,331	21,645,194	11,886,766	38,397,158	28,201,097
Other liabilities	1,142,408	3,281,928	756,802	1,684,591	1,899,210	4,966,519
Total liabilities	17,894,372	19,596,259	22,401,996	13,571,357	40,296,368	33,167,616
Total deferred inflows of resources	158,277	131,048	29,672	24,728	187,949	155,776
Net position:						
Net investment in capital assets	24,735,870	24,492,141	31,298,115	27,592,280	56,033,985	52,084,421
Restricted	1,123,142	2,300,596	-	-	1,123,142	2,300,596
Unrestricted	6,115,680	5,385,680	6,348,421	7,176,189	12,464,101	12,561,869
Total net position	\$ 31,974,692	\$ 32,178,417	\$ 37,646,536	\$ 34,768,469	\$ 69,621,228	\$ 66,946,886

By far the largest portion of the City’s net position (\$56,033,985 or 80.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, 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 used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net position (\$1,123,142 or 1.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance (\$12,464,101 or 17.9 percent) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

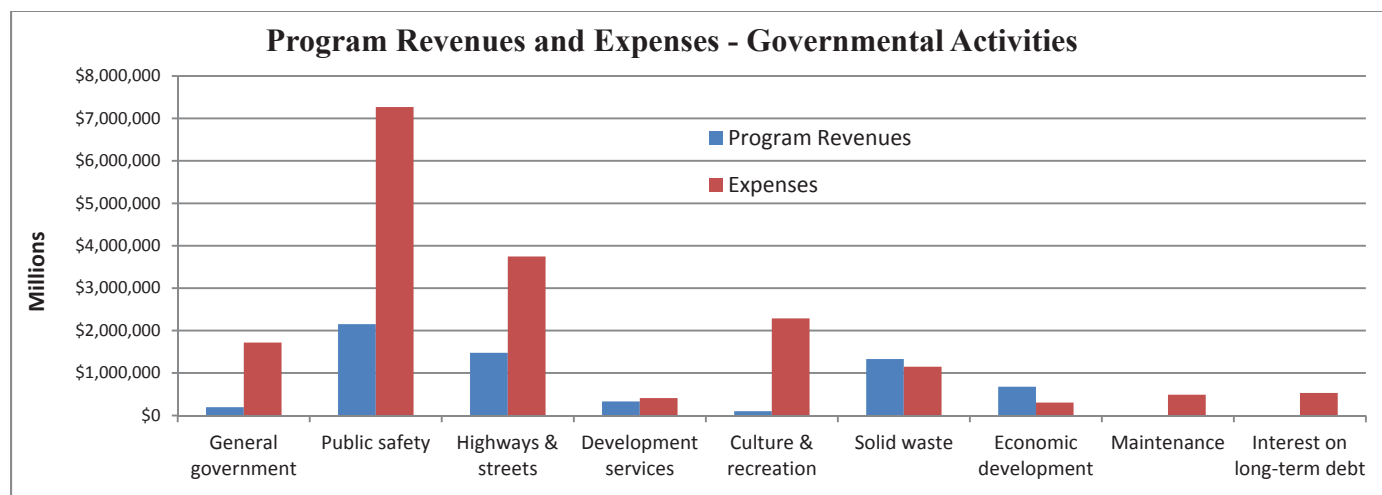


The City's total net position increased \$2,674,342 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental and business-type activities.

City of Belton's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 3,469,905	\$ 3,233,337	\$ 8,246,690	\$ 7,276,735	\$ 11,716,595	\$ 10,510,072
Operating grants and contributions	1,031,482	1,044,637	-	-	1,031,482	1,044,637
Capital grants and contributions	1,756,063	2,783,748	3,296,277	8,588,839	5,052,340	11,372,587
General revenues:						
Property taxes	6,608,619	6,355,718	-	-	6,608,619	6,355,718
Sales taxes	3,276,982	3,155,659	-	-	3,276,982	3,155,659
Franchise taxes	1,164,334	1,171,669	-	-	1,164,334	1,171,669
Other taxes	208,502	185,664	-	-	208,502	185,664
Investment earnings	113,232	42,668	149,443	33,343	262,675	76,011
Gain (loss) on sale of assets	(981,302)	17,821	14,920	(36,600)	(966,382)	(18,779)
Other income	276,195	399,537	-	-	276,195	399,537
Total revenues	16,924,012	18,390,458	11,707,330	15,862,317	28,631,342	34,252,775
Expenses:						
General government	1,717,750	1,689,517	-	-	1,717,750	1,689,517
Public safety	7,270,358	7,542,557	-	-	7,270,358	7,542,557
Highways and streets	3,595,036	2,092,553	-	-	3,595,036	2,092,553
Development services	394,218	346,111	-	-	394,218	346,111
Culture and recreation	2,288,188	2,174,373	-	-	2,288,188	2,174,373
Solid waste	1,149,978	1,096,528	-	-	1,149,978	1,096,528
Economic development	456,739	209,272	-	-	456,739	209,272
Maintenance	499,933	432,894	-	-	499,933	432,894
Interest on long-term debt	530,523	524,277	-	-	530,523	524,277
Water and sewer	-	-	7,587,275	6,612,667	7,587,275	6,612,667
Drainage	-	-	467,002	438,375	467,002	438,375
Total expenses	17,902,723	16,108,082	8,054,277	7,051,042	25,957,000	23,159,124
Changes in net assets before transfers	(978,711)	2,282,376	3,653,053	8,811,275	2,674,342	11,093,651
Transfers	774,986	333,427	(774,986)	(309,805)	-	23,622
Changes in net position	(203,725)	2,615,803	2,878,067	8,501,470	2,674,342	11,117,273
Net position - October 1	32,178,417	29,562,614	34,768,469	26,266,999	66,946,886	55,829,613
Net position - September 30	\$ 31,974,692	\$ 32,178,417	\$ 37,646,536	\$ 34,768,469	\$ 69,621,228	\$ 66,946,886

Governmental activities. During the current fiscal year, net position for governmental activities decreased \$203,725 from the prior fiscal year for an ending balance of \$31,974,692. This decrease was primarily the result of depreciation and the use of cash to retire long-term liabilities.



Business-type activities. For the City’s business-type activities, the results for the current fiscal year were positive in that overall net position increased to an ending balance of \$37,646,536. The total increase in net position for business-type activities (Water and Sewer Fund, and Drainage Fund) was \$2,878,067. Key changes year over year included:

- Charges for business-type activities totaled \$8,246,690, an increase of \$969,955 or 13.3 percent from the prior year. This increase is a reflection of increased water consumption compared to the previous year, as well as an increase in the water and sewer rates;
- Expenses for business-type activities totaled \$8,054,277, an increase of \$1,003,235 or 14.2 percent compared to the previous year primarily due to an increase in depreciation expense; and
- Capital grants and contributions from grant agencies and developers amounted to \$3,296,277.

Financial Analysis of the City’s Funds

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

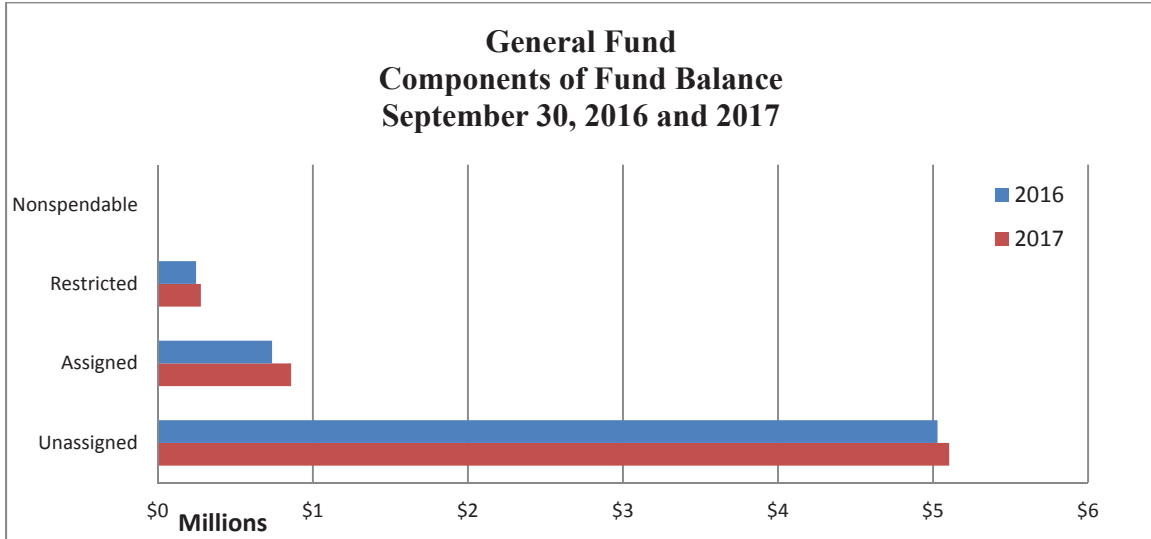
Governmental funds. The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the City Council.

At September 30, 2017, the City’s governmental funds reported combined ending fund balances of \$10,295,332, a decrease of \$2,867,561 in comparison with the prior year. Approximately 49.6 percent (\$5,103,448) of this amount constitutes *unassigned fund balance*, which is available for spending at the City’s discretion. The remainder of fund balance is *non-spendable, restricted, committed, or assigned* to indicate that it is:

- 1) Not in spendable form (\$4,409);
- 2) Restricted for particular purposes:
 - a. Debt service (\$169,940);
 - b. Public, educational, or governmental access facilities (\$264,425);
 - c. Public safety training, equipment, and security facilities (\$117,557);
 - d. Cemetery maintenance and improvements (\$3,140); and
 - e. Capital projects and economic development (\$1,852,583).
- 3) Committed for particular purposes:
 - a. Economic development (\$7,034).

4) Assigned for particular purposes:

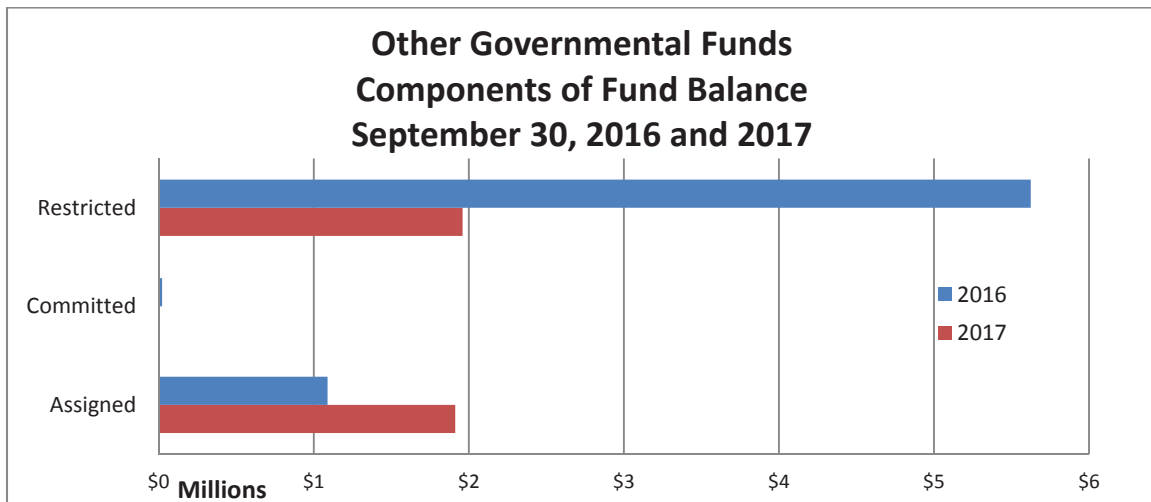
- a. Future civil service costs (\$824,834);
- b. Library books and services(\$32,978);
- c. Youth Advisory Commission (\$2,766); and
- d. Capital projects and equipment (\$1,912,218)



The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,104,032, while total fund balance increased to \$6,247,520. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 41.5 percent of total General Fund expenditures, while total fund balance represents 50.8 percent of that same amount.

The fund balance of the City’s General Fund increased by \$225,405 during the current fiscal year. The net increase was due to:

- Stronger than anticipated revenues; and
- Growth in the reserves assigned to future civil service costs due to funding outpacing expenditures.



Assigned other governmental funds consist of capital project and capital equipment replacement funds. The balance increased from 2016 to 2017 primarily due to the funding of capital equipment replacement funds and the establishment of the major street maintenance fund, offset by the expenditure of capital project dollars on assigned projects.

Committed other governmental funds consist of the City funding dedicated to projects under the Texas Department of Housing and Community Affairs home replacement program. Replacement home activity during the year resulted in a decrease in fund balance to \$7,034.

Restricted governmental funds relate to funds restricted to a specific purpose such as bond funds, Tax Increment Reinvestment Zone funds, and donations. The fund balance decrease from 2016 to 2017 was primarily due to the expenditure of bond proceeds in accordance with their designated use.

The Debt Service Fund, a major fund, had an increase in fund balance during the current year of \$11,255, to bring the year-end fund balance to \$169,940. This increase resulted from stronger than anticipated ad valorem tax collections.

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

Net position of the Water and Sewer Fund at the end of the year was \$34,629,889, and the net position of the Drainage Fund amounted to \$3,016,647. The total change in net position was \$2,711,077 and \$166,990, respectively. Notable changes in the Water and Sewer Fund activity include:

- Charges for business-type activities totaled \$7,857,459, an increase of \$958,715 or 13.9 percent from the prior year. This increase is a reflection of increased water consumption compared to the previous year as well as an increase in the water and sewer rates;
- Operating expenses totaled \$7,020,775, an increase of \$777,783 or 12.5 percent from the prior year. The increase was primarily driven by increased depreciation; and
- Capital contributions were \$2,803,876. The contributions related to the dedication of water and sewer lines in the Three Creeks, Creekside Estates Liberty Park, Highland Estates, Dawson Ranch, and River Place subdivisions.

Notable changes in the Drainage Fund activity include:

- An increase in revenue of \$11,240 or 3.0 percent due to an increased number of customers in the current year;
- An increase in operating expenses of \$29,853 or 7.0 percent. The increases were primarily driven by salaries and wages and benefits, as personnel vacancies from the prior year were filled, and depreciation; and
- There was \$492,401 in capital contributions during the current year, related to the dedication of drainage facilities in the Creekside Estates Liberty Park, Highland Estates, Dawson Ranch, and River Place subdivisions.

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. Budgeted uses of funds, inclusive of expenditures and transfers out, increased by \$285,600 between the original budget and final budget. The increase in uses was primarily attributable to provide additional funding for street maintenance (\$240,000) as well as additional maintenance funds as a result of insurance proceeds (\$25,600), and additional refuse collection costs (\$20,000).

Budgeted sources of funds, inclusive of revenues and other financing sources increased by \$45,600 between the original budget and final budget. The increase in sources was primarily attributable to:

- \$20,000 in additional refuse collection revenues, and
- \$25,600 in insurance proceeds.

Final budget compared to actual results. The most significant differences between budgeted revenues and actual revenues were as follows:

<u>Revenue Source</u>	<u>Budgeted Revenues</u>	<u>Actual Revenues</u>	<u>Difference</u>
Taxes	\$ 9,112,327	\$ 9,289,312	\$ 176,985
Licenses and permits	203,900	331,412	127,512
Charges for services	2,611,800	2,743,579	131,779

The overage in tax revenues was caused by strong ad valorem, sales and franchise tax collections that surpassed budget expectations. License and permit revenue is influenced by the building and construction activity within the community, and was up relative to the prior year. Ambulance revenues were stronger than expected, leading to charges for services exceeding budget. EMS calls for service increased, thereby increasing revenue despite no changes in the City's EMS rate structure.

A review of actual expenditures compared to appropriations in the final budget shows no significant variances. Transfers out exceeded budgeted amounts by \$305,734 due to increased funding of capital initiatives across multiple departments.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2017, amounts to \$76,094,548 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, streets, bridges, drainage structures, and water and sewer system infrastructure to include pumps, pipes, storage tanks, and associated fittings and fixtures. The total increase in the City's investment in capital assets for the current fiscal year was 5.8 percent (a 5.9 percent increase for governmental activities and a 5.7 percent increase for business-type activities).

City of Belton's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,594,527	\$ 2,486,662	\$ 369,801	\$ 368,601	\$ 2,964,328	\$ 2,855,263
Buildings	5,451,289	5,772,576	84,590	72,048	5,535,879	5,844,624
Improvements other than buildings	2,002,452	1,850,479	-	-	2,002,452	1,850,479
Machinery and equipment	2,178,833	1,984,042	1,625,842	1,461,756	3,804,675	3,445,798
Infrastructure	21,376,154	15,064,196	34,873,311	33,495,543	56,249,465	48,559,739
Construction in progress	3,379,873	7,751,656	2,157,876	1,587,226	5,537,749	9,338,882
Total	\$ 36,983,128	\$ 34,909,611	\$ 39,111,420	\$ 36,985,174	\$ 76,094,548	\$ 71,894,785

Major capital asset events during the current fiscal year included the following:

- Work was completed on:
 - MLK/9th Avenue extension;
 - Sparta Road repavement;
 - Master Signage Plan;
 - North Main & River Fair intersection improvements;
 - Chisholm Trail Hike and Bike trail extension;
 - MLK/9th Avenue utility relocation;
 - Public Works portable building retrofit; and
 - Connell Street drainage improvements.
- Work began/continued on:
 - Sparta Road expansion and reconstruction;
 - South Main sidewalk extension and water line relocation;
 - Police Department remodel;
 - Chisholm Trail Hike and Bike phase II trail extension;
 - Temple-Belton Wastewater Treatment Plant redevelopment;
 - North Belton elevated water storage tank; and
 - I-35 sewer line extension.

Additional information on the City's capital assets can be found in Note V on pages 48 - 51 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$34,204,995, all of which is backed by the full faith and credit of the City. In addition, \$20,677,168 of this amount is also backed with a pledge of water and sewer revenue and storm water drainage revenue.

City of Belton's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 13,527,827	\$ 14,384,652	-	-	\$ 13,527,827	\$ 14,384,652
Revenue bonds with tax cross-pledge	-	-	20,677,168	12,072,193	20,677,168	12,072,193
Total	\$ 13,527,827	\$ 14,384,652	\$ 20,677,168	\$ 12,072,193	\$ 34,204,995	\$ 26,456,845

The City's total bonded debt increased by \$7,748,150 (29.3 percent) during the current fiscal year. The increase was due to the issuance of \$9,585,000 in certificates of obligations supported by water and sewer revenues offset by regularly scheduled principal payments. The City "AA-" rating from Standard & Poor's for general obligation debt was affirmed during the 2016 Certificate of Obligation debt issue process.

No direct funded debt limitation is imposed on the City under current State law or the City Charter. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem rate to \$2.50 per \$100 of assessed valuation for all City purposes. The City Charter limits the tax rate to \$1.90 per \$100 of assessed valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the maximum tax rate for general obligation debt service. The City's fiscal year 2017 tax rate is well below all of the aforementioned limits.

Additional information on the City's long-term debt can be found in Note VI on pages 51 - 55 of this report.

Economic Factors and Next Year's Budget and Rates

The following economic factors currently affect the City of Belton and were considered in developing the 2018 fiscal year budget:

- The local economy has remained stable and is experiencing growth as evidenced by construction activity. Several large projects are underway, and the City continues to make infrastructure improvements and conduct master planning which will position the City for future expansion.
- Growth does create new challenges which must be addressed, and the Strategic Plan provides a framework for the future. Meeting these challenges takes the vision of Council to guide the Strategic Plan, financial resources to fund the Plan, and a management team and staff to implement the Plan. The Belton City Council, management, and staff remain dedicated to the purposes of planning and providing for the future of the City.
- The fiscal year 2018 budget was based on sustaining operating levels, while meeting the demands of a growing community. The ad valorem tax rate was maintained at the current rate of \$0.6598 per \$100 of assessed valuation to fund increases in recurring expenditure obligations. A water and sewer rate study was completed and adopted by Council during FY 2015, and will include future rate increases to fund planned projects, including most notably the expansion of the wastewater treatment plant and the expansion of sewer services south down the IH-35 corridor. Previous rate increases from the rate study funded the transition to automated water metering and the Nolan Creek trunk sewer line replacement.

At the end of fiscal year 2017, fund balance (budgetary basis) in the General Fund is \$5,108,101. The City Council has stipulated that the General Fund maintain three months operating expenditures as a minimum of undesignated reserves, which currently equates to \$3.34 million. It is intended that the available fund balance beyond the minimum be used for non-recurring capital outlay and projects, and not for financing of on-going operational costs. For fiscal year 2018, fund balance in all budgeted funds is projected to remain at adequate levels to provide for unexpected decreases in revenues plus extraordinary unbudgeted expenditures.

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:

Director of Finance
City of Belton
P.O. Box 120
Belton, Texas, 76513

Basic Financial Statements



City of Belton, Texas
Statement of Net Position
September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Belton Economic Development Corporation, Inc.
Assets				
Cash and cash equivalents	\$ 9,818,737	19,508,885	29,327,622	6,658,912
Receivables (net of allowance for uncollectibles)	1,776,850	1,220,351	2,997,201	298,199
Due from other governments	228,348	-	228,348	-
Prepaid items	4,409	7,719	12,128	-
Restricted cash and cash equivalents	-	1,895	1,895	-
Capital assets not being depreciated:				
Land	2,594,527	369,801	2,964,328	877,834
Construction in progress	3,379,873	2,157,876	5,537,749	226,360
Capital assets, net of accumulated depreciation:				
Buildings	5,451,289	84,590	5,535,879	986,999
Improvements other than buildings	2,002,452	-	2,002,452	-
Machinery and equipment	2,178,834	1,625,842	3,804,676	-
Infrastructure	21,376,153	34,873,311	56,249,464	1,206,846
Total assets	<u>48,811,472</u>	<u>59,850,270</u>	<u>108,661,742</u>	<u>10,255,150</u>
Deferred Outflows of Resources				
Deferred outflows of resources	1,215,869	227,934	1,443,803	27,345
Total deferred outflows of resources	<u>1,215,869</u>	<u>227,934</u>	<u>1,443,803</u>	<u>27,345</u>
Liabilities				
Accounts and retainages payable	822,640	379,178	1,201,818	226,918
Accrued interest payable	69,051	99,547	168,598	-
Other accrued liabilities	229,792	44,727	274,519	32,361
Customer deposits payable	20,925	233,350	254,275	2,200
Noncurrent liabilities:				
Due within one year	1,372,979	997,553	2,370,532	-
Due in more than one year	15,378,985	20,647,641	36,026,626	47,283
Total liabilities	<u>17,894,372</u>	<u>22,401,996</u>	<u>40,296,368</u>	<u>308,762</u>
Deferred Inflows of Resources				
Deferred inflows of resources	158,277	29,672	187,949	3,560
Total deferred inflows of resources	<u>158,277</u>	<u>29,672</u>	<u>187,949</u>	<u>3,560</u>
Net Position				
Net investment in capital assets	24,735,870	31,298,115	56,033,985	3,298,039
Restricted for:				
Debt service	196,435	-	196,435	-
Economic development	534,568	-	534,568	-
Court	37,976	-	37,976	-
Public safety	79,581	-	79,581	-
Public access facilities	264,425	-	264,425	-
Cemetery	3,140	-	3,140	-
Capital projects and equipment	7,017	-	7,017	-
Unrestricted	<u>6,115,680</u>	<u>6,348,421</u>	<u>12,464,101</u>	<u>6,672,134</u>
Total net position	<u>\$ 31,974,692</u>	<u>37,646,536</u>	<u>69,621,228</u>	<u>9,970,173</u>

See accompanying notes to financial statements.

City of Belton, Texas
Statement of Activities
For the Fiscal Year Ended
September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,717,750	-	194,000	-
Public safety	7,270,358	1,724,140	358,790	68,212
Highways and streets	3,595,036	-	-	1,476,361
Planning	394,218	331,412	-	-
Culture and recreation	2,288,188	84,260	14,316	-
Solid waste	1,149,978	1,330,093	-	-
Economic development	456,739	-	464,376	211,490
Maintenance	499,933	-	-	-
Interest and other fiscal charges	530,523	-	-	-
Total governmental activities	<u>17,902,723</u>	<u>3,469,905</u>	<u>1,031,482</u>	<u>1,756,063</u>
Business-type activities:				
Water and sewer	7,587,275	7,857,459	-	2,803,876
Drainage	467,002	389,231	-	492,401
Total business-type activities	<u>8,054,277</u>	<u>8,246,690</u>	<u>-</u>	<u>3,296,277</u>
Total primary government	<u>\$ 25,957,000</u>	<u>11,716,595</u>	<u>1,031,482</u>	<u>5,052,340</u>
Component unit:				
Belton Economic Development Corporation, Inc.				
	\$ 804,344	44,215	-	-
Total component unit	<u>\$ 804,344</u>	<u>44,215</u>	<u>-</u>	<u>-</u>
General revenues:				
Property taxes				
Sales taxes				
Franchise taxes				
Hotel/motel taxes				
Alcoholic beverage taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain (loss) on sale of assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning of year				
Net position, end of year				

See accompanying notes to financial statements.

Net Revenues (Expenses) and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Belton Economic Development Corporation, Inc.
(1,523,750)		(1,523,750)	
(5,119,216)		(5,119,216)	
(2,118,675)		(2,118,675)	
(62,806)		(62,806)	
(2,189,612)		(2,189,612)	
180,115		180,115	
219,127		219,127	
(499,933)		(499,933)	
(530,523)		(530,523)	
<u>(11,645,273)</u>		<u>(11,645,273)</u>	
-	3,074,060	3,074,060	
-	414,630	414,630	
<u>-</u>	<u>3,488,690</u>	<u>3,488,690</u>	
<u>(11,645,273)</u>	<u>3,488,690</u>	<u>(8,156,583)</u>	
			<u>(760,129)</u>
			<u>(760,129)</u>
6,608,619	-	6,608,619	-
3,276,982	-	3,276,982	1,638,491
1,164,334	-	1,164,334	-
167,691	-	167,691	-
40,811	-	40,811	-
113,232	149,443	262,675	52,967
276,195	-	276,195	-
(981,302)	14,920	(966,382)	-
774,986	(774,986)	-	-
<u>11,441,548</u>	<u>(610,623)</u>	<u>10,830,925</u>	<u>1,691,458</u>
(203,725)	2,878,067	2,674,342	931,329
<u>32,178,417</u>	<u>34,768,469</u>	<u>66,946,886</u>	<u>9,038,844</u>
<u>31,974,692</u>	<u>37,646,536</u>	<u>69,621,228</u>	<u>9,970,173</u>

City of Belton, Texas
Balance Sheet
Governmental Funds
September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 5,498,215	170,495	4,150,027	9,818,737
Receivables (net of allowance for uncollectibles)	1,713,522	26,495	36,833	1,776,850
Due from other governments	199,758	-	28,590	228,348
Due from other funds	11,800	-	-	11,800
Prepaid items	4,409	-	-	4,409
 Total assets	 <u>\$ 7,427,704</u>	 <u>196,990</u>	 <u>4,215,450</u>	 <u>11,840,144</u>
 Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities:				
Accounts and retainages payable	\$ 496,886	555	325,198	822,639
Accrued liabilities	229,212	-	580	229,792
Customer deposits payable	20,925	-	-	20,925
Due to other funds	-	-	11,800	11,800
Total liabilities	<u>747,023</u>	<u>555</u>	<u>337,578</u>	<u>1,085,156</u>
Deferred inflows of resources:				
Unavailable revenue	433,161	26,495	-	459,656
Total deferred inflows of resources	<u>433,161</u>	<u>26,495</u>	<u>-</u>	<u>459,656</u>
Fund balances:				
Nonspendable	4,409	-	-	4,409
Restricted	278,501	169,940	1,959,204	2,407,645
Committed	-	-	7,034	7,034
Assigned	860,578	-	1,912,218	2,772,796
Unassigned	5,104,032	-	(584)	5,103,448
Total fund balances	<u>6,247,520</u>	<u>169,940</u>	<u>3,877,872</u>	<u>10,295,332</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 7,427,704</u>	 <u>196,990</u>	 <u>4,215,450</u>	
 Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds				36,983,128
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.				459,656
Long-term liabilities, including bonds payable and the net pension liability, are not due and payable in the current period, and therefore, are reported in the funds.				<u>(15,763,424)</u>
 Net position of governmental activities				 <u>\$ 31,974,692</u>

See accompanying notes to financial statements.

City of Belton, Texas
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Fiscal Year Ended
September 30, 2017

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes:				
Ad valorem	\$ 4,807,185	1,074,342	728,569	6,610,096
Sales	3,276,982	-	-	3,276,982
Franchise	1,164,334	-	-	1,164,334
Hotel/motel	-	-	167,691	167,691
Alcoholic beverage	40,811	-	-	40,811
Licenses and permits	331,412	-	-	331,412
Intergovernmental	426,858	-	695,353	1,122,211
Charges for services	2,743,579	-	-	2,743,579
Fines	314,189	-	18,850	333,039
Interest	61,681	5,780	45,771	113,232
Contributions and donations	12,560	-	254,476	267,036
Payments in lieu of taxes	9,532	-	-	9,532
Miscellaneous	243,445	-	34,097	277,542
Total revenues	<u>13,432,568</u>	<u>1,080,122</u>	<u>1,944,807</u>	<u>16,457,497</u>
Expenditures:				
Current:				
General government	1,510,233	-	88,250	1,598,483
Public safety	6,485,596	-	36,301	6,521,897
Highways and streets	935,356	-	1,427,228	2,362,584
Planning	375,071	-	4,457	379,528
Culture and recreation	1,357,934	-	72,699	1,430,633
Solid waste	1,123,844	-	-	1,123,844
Economic development	-	-	456,739	456,739
Maintenance services	440,884	-	11,168	452,052
Debt service:				
Principal	-	646,824	260,000	906,824
Interest and fiscal charges	-	428,238	82,350	510,588
Bond issuance costs	-	23,805	11,877	35,682
Capital outlay	79,322	-	4,359,806	4,439,128
Total expenditures	<u>12,308,240</u>	<u>1,098,867</u>	<u>6,810,875</u>	<u>20,217,982</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,124,328</u>	<u>(18,745)</u>	<u>(4,866,068)</u>	<u>(3,760,485)</u>
Other financing sources (uses):				
Insurance proceeds	28,778	-	20,680	49,458
Proceeds from the sale of capital assets	2,430	-	16,050	18,480
Proceeds from issuance of debt	-	30,000	20,000	50,000
Transfers in	530,792	-	1,928,129	2,458,921
Transfers out	(1,460,923)	-	(223,012)	(1,683,935)
Total other financing sources (uses)	<u>(898,923)</u>	<u>30,000</u>	<u>1,761,847</u>	<u>892,924</u>
Net change in fund balances	225,405	11,255	(3,104,221)	(2,867,561)
Fund balances, beginning of year	<u>6,022,115</u>	<u>158,685</u>	<u>6,982,093</u>	<u>13,162,893</u>
Fund balances, end of year	<u>\$ 6,247,520</u>	<u>169,940</u>	<u>3,877,872</u>	<u>10,295,332</u>

See accompanying notes to financial statements.

City of Belton, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Fiscal Year Ended
September 30, 2017

Amounts reported for governmental activities in the statement of activities (Exhibit A-2) are different because:

Net change in fund balances - total governmental funds (Exhibit A-4)	\$ (2,867,561)
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 as depreciation expense. This is the amount by which capital outlays (\$4,439,128) exceed depreciation expense (\$2,714,669) in the current period.	1,724,459
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, donations, etc.) is to increase net position. This is capital assets contributed (\$1,398,298) less the net book value of capital assets sold (\$1,049,240) in the current period.	349,058
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	49,519
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in governmental funds. This amount is the net effect of change in the net pension liability and the related deferred outflows and inflows of resources (\$289,608) plus the change in accrued interest payable (\$12,878) less the change in compensated absences (\$42,163).	(318,893)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This is the amount of new debt issued less principal repayments and bond premium amortization in the current year.	<u>859,693</u>
Change in net position of governmental activities (Exhibit A-2)	<u><u>\$ (203,725)</u></u>

See accompanying notes to financial statements.

City of Belton, Texas
General Fund
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual – Budgetary Basis
For the Fiscal Year Ended
September 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Current ad valorem	\$ 4,639,303	4,639,303	4,712,713	73,410
Delinquent ad valorem	57,000	57,000	47,595	(9,405)
Penalty and interest	55,000	55,000	46,877	(8,123)
Total ad valorem	<u>4,751,303</u>	<u>4,751,303</u>	<u>4,807,185</u>	<u>55,882</u>
Sales	3,193,024	3,193,024	3,276,982	83,958
Franchise	1,130,000	1,130,000	1,164,334	34,334
Alcoholic beverage	38,000	38,000	40,811	2,811
Total taxes	<u>9,112,327</u>	<u>9,112,327</u>	<u>9,289,312</u>	<u>176,985</u>
Licenses and permits:				
Building	94,600	94,600	154,779	60,179
Electrical	31,600	31,600	57,832	26,232
Plumbing	30,800	30,800	47,938	17,138
Mechanical	18,700	18,700	42,399	23,699
Swimming pool	900	900	1,090	190
Rezoning fees	7,500	7,500	4,850	(2,650)
Subdivision fees	8,400	8,400	9,974	1,574
Miscellaneous	11,400	11,400	12,550	1,150
Total licenses and permits	<u>203,900</u>	<u>203,900</u>	<u>331,412</u>	<u>127,512</u>
Intergovernmental	<u>326,551</u>	<u>326,551</u>	<u>354,588</u>	<u>28,037</u>
Charges for services:				
Ambulance	1,230,000	1,230,000	1,340,105	110,105
Parks and recreation	55,300	55,300	73,381	18,081
Brush collection	176,000	176,000	178,107	2,107
Refuse collection	1,130,500	1,150,500	1,151,986	1,486
Total charges for services	<u>2,591,800</u>	<u>2,611,800</u>	<u>2,743,579</u>	<u>131,779</u>
Fines:				
Municipal court	245,300	245,300	219,992	(25,308)
Court fees	113,600	113,600	91,167	(22,433)
Total fines	<u>358,900</u>	<u>358,900</u>	<u>311,159</u>	<u>(47,741)</u>
Rental	-	-	-	-
Interest	<u>21,000</u>	<u>21,000</u>	<u>54,152</u>	<u>33,152</u>
Contributions and donations	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	-
Payments in lieu of taxes	<u>9,500</u>	<u>9,500</u>	<u>9,532</u>	<u>32</u>
Miscellaneous	<u>252,300</u>	<u>252,300</u>	<u>203,268</u>	<u>(49,032)</u>
Total revenues	<u>12,878,278</u>	<u>12,898,278</u>	<u>13,299,002</u>	<u>400,724</u>

(Continued)

City of Belton, Texas
General Fund
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual – Budgetary Basis
For the Fiscal Year Ended
September 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Expenditures:				
General government:				
City council	\$ 72,467	73,467	73,246	221
City administration	886,358	610,973	606,247	4,726
TIRZ	-	-	-	-
Finance	495,570	493,158	478,571	14,587
Legal	178,116	184,516	176,493	8,023
Information Technology	165,336	170,622	170,673	(51)
Total general government	<u>1,797,847</u>	<u>1,532,736</u>	<u>1,505,230</u>	<u>27,506</u>
Public safety:				
Police	3,724,247	3,749,597	3,660,982	88,615
Fire	2,758,950	2,758,950	2,700,968	57,982
Total public safety	<u>6,483,197</u>	<u>6,508,547</u>	<u>6,361,950</u>	<u>146,597</u>
Highways and streets	<u>1,129,378</u>	<u>1,004,378</u>	<u>946,466</u>	<u>57,912</u>
Planning	<u>398,867</u>	<u>399,040</u>	<u>375,071</u>	<u>23,969</u>
Culture and recreation:				
Parks	1,051,374	1,054,374	1,013,939	40,435
Library	299,496	299,916	291,791	8,125
Total culture and recreation	<u>1,350,870</u>	<u>1,354,290</u>	<u>1,305,730</u>	<u>48,560</u>
Solid waste	<u>1,100,771</u>	<u>1,124,547</u>	<u>1,123,844</u>	<u>703</u>
Maintenance services	<u>441,978</u>	<u>443,469</u>	<u>440,884</u>	<u>2,585</u>
Total expenditures	<u>12,702,908</u>	<u>12,367,007</u>	<u>12,059,175</u>	<u>307,832</u>
Excess (deficiency) of revenues over (under) expenditures	<u>175,370</u>	<u>531,271</u>	<u>1,239,827</u>	<u>708,556</u>
Other financing sources (uses):				
Insurance proceeds	-	25,600	28,778	3,178
Proceeds from the sale of capital assets	-	-	833	833
Transfers in	526,814	526,814	530,792	3,978
Transfers out	(802,173)	(1,423,674)	(1,729,408)	(305,734)
Total other financing sources (uses)	<u>(275,359)</u>	<u>(871,260)</u>	<u>(1,169,005)</u>	<u>(297,745)</u>
Net change in fund balances	(99,989)	(339,989)	70,822	410,811
Fund balances, beginning of year	<u>5,037,279</u>	<u>5,037,279</u>	<u>5,037,279</u>	<u>-</u>
Fund balances, end of year	<u>\$ 4,937,290</u>	<u>4,697,290</u>	<u>5,108,101</u>	<u>410,811</u>

See accompanying notes to financial statements.

City of Belton, Texas
Statement of Net Position –
Proprietary Funds
September 30, 2017

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Drainage	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 19,140,844	368,041	19,508,885
Receivables (net of allowance for uncollectibles)	1,176,639	43,712	1,220,351
Prepaid items	7,719	-	7,719
Total current assets	<u>20,325,202</u>	<u>411,753</u>	<u>20,736,955</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,895	-	1,895
Capital assets:			
Land	369,671	130	369,801
Buildings	104,793	-	104,793
Infrastructure	51,198,055	3,410,635	54,608,690
Machinery and equipment	2,559,983	254,009	2,813,992
Construction in progress	2,157,876	-	2,157,876
	<u>56,390,378</u>	<u>3,664,774</u>	<u>60,055,152</u>
Less accumulated depreciation	(20,140,494)	(803,238)	(20,943,732)
Total capital assets, net	<u>36,249,884</u>	<u>2,861,536</u>	<u>39,111,420</u>
Total noncurrent assets	<u>36,251,779</u>	<u>2,861,536</u>	<u>39,113,315</u>
Total assets	<u>56,576,981</u>	<u>3,273,289</u>	<u>59,850,270</u>
Deferred Outflows of Resources			
Deferred outflows of resources	<u>199,745</u>	<u>28,189</u>	<u>227,934</u>
Liabilities			
Current liabilities:			
Accounts and retainages payable	368,622	10,556	379,178
Accrued interest payable	98,038	1,509	99,547
Other accrued liabilities	40,856	3,871	44,727
Customer deposits payable	233,350	-	233,350
Compensated absences - current	38,091	-	38,091
Revenue bonds payable - current	943,550	15,912	959,462
Total current liabilities	<u>1,722,507</u>	<u>31,848</u>	<u>1,754,355</u>
Noncurrent liabilities:			
Compensated absences	18,155	410	18,565
Net pension liability	345,391	48,741	394,132
Revenue bonds payable	20,034,782	200,162	20,234,944
Total noncurrent liabilities	<u>20,398,328</u>	<u>249,313</u>	<u>20,647,641</u>
Total liabilities	<u>22,120,835</u>	<u>281,161</u>	<u>22,401,996</u>
Deferred Inflows of Resources			
Deferred inflows of resources	<u>26,002</u>	<u>3,670</u>	<u>29,672</u>
Net Position			
Net investment in capital assets	28,652,653	2,645,462	31,298,115
Unrestricted	<u>5,977,236</u>	<u>371,185</u>	<u>6,348,421</u>
Total net position	<u>\$ 34,629,889</u>	<u>3,016,647</u>	<u>37,646,536</u>

See accompanying notes to financial statements.

City of Belton, Texas
Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds
For the Fiscal Year Ended
September 30, 2017

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Drainage	Total
Operating revenues:			
Charges for sales and services:			
Water service	\$ 4,557,170	-	4,557,170
Sewer service	2,827,928	-	2,827,928
Storm drainage fees	-	389,231	389,231
Reconnect and late fees	136,227	-	136,227
Tap fees	262,504	-	262,504
Other operating revenue	73,630	-	73,630
Total operating revenues	<u>7,857,459</u>	<u>389,231</u>	<u>8,246,690</u>
Operating expenses:			
Salaries and wages	1,074,684	144,943	1,219,627
Employee benefits	347,577	54,181	401,758
Supplies	84,712	13,385	98,097
Repairs and maintenance	209,798	30,891	240,689
Water, sewage treatment, and other charges	2,553,478	50,289	2,603,767
Depreciation	2,750,526	164,222	2,914,748
Total operating expenses	<u>7,020,775</u>	<u>457,911</u>	<u>7,478,686</u>
Operating income (loss)	<u>836,684</u>	<u>(68,680)</u>	<u>768,004</u>
Nonoperating revenues (expenses):			
Gain on sale of capital assets	14,920	-	14,920
Interest earnings	145,006	4,437	149,443
Interest expense	(561,462)	(9,091)	(570,553)
Amortization expense	(5,038)	-	(5,038)
Total nonoperating revenues (expenses)	<u>(406,574)</u>	<u>(4,654)</u>	<u>(411,228)</u>
Income before contributions and transfers	430,110	(73,334)	356,776
Capital contributions	2,803,876	492,401	3,296,277
Transfers in	140,599	-	140,599
Transfers out	<u>(663,508)</u>	<u>(252,077)</u>	<u>(915,585)</u>
Change in net position	2,711,077	166,990	2,878,067
Total net position, beginning of year	<u>31,918,812</u>	<u>2,849,657</u>	<u>34,768,469</u>
Total net position, end of year	<u>\$ 34,629,889</u>	<u>3,016,647</u>	<u>37,646,536</u>

See accompanying notes to financial statements.

City of Belton, Texas
Statement of Cash Flows –
Proprietary Funds
For the Fiscal Year Ended
September 30, 2017

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Drainage	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 7,490,151	385,331	7,875,482
Payments to suppliers	(3,216,281)	(149,967)	(3,366,248)
Payments to employees	(1,082,197)	(138,626)	(1,220,823)
Net cash provided by operating activities	<u>3,191,673</u>	<u>96,738</u>	<u>3,288,411</u>
Cash flows from noncapital financing activities:			
Transfer from other funds	2,774,642	617,606	3,392,248
Transfer to other funds	(3,297,551)	(869,683)	(4,167,234)
Net cash used in noncapital financing activities	<u>(522,909)</u>	<u>(252,077)</u>	<u>(774,986)</u>
Cash flows from capital and related financing activities:			
Purchases and construction of capital assets	(1,745,637)	(14,000)	(1,759,637)
Proceeds from the sale of assets	14,920	-	14,920
Principal paid on capital debt	(984,950)	(15,075)	(1,000,025)
Proceeds from capital debt	9,891,633	-	9,891,633
Interest paid on capital debt	(543,494)	(9,752)	(553,246)
Net cash provided by (used in) capital and related financing activities	<u>6,632,472</u>	<u>(38,827)</u>	<u>6,593,645</u>
Cash flows from investing activities:			
Interest received	145,006	4,437	149,443
Net cash provided by investing activities	<u>145,006</u>	<u>4,437</u>	<u>149,443</u>
Net increase (decrease) in cash and cash equivalents	9,446,242	(189,729)	9,256,513
Cash and cash equivalents, beginning of year	<u>9,696,497</u>	<u>557,770</u>	<u>10,254,267</u>
Cash and cash equivalents, end of year (loss)	<u>\$ 19,142,739</u>	<u>368,041</u>	<u>19,510,780</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 836,684	(68,680)	768,004
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	2,750,526	164,222	2,914,748
Gain on sale of capital assets	14,920	-	14,920
Increase in receivables	(382,228)	(3,900)	(386,128)
Increase (decrease) in accounts and retainages payable	(112,642)	3,647	(108,995)
Increase in other accrued liabilities	3,861	(777)	3,084
Increase in customer deposits payable	28,220	-	28,220
Increase (decrease) in compensated absences	7,513	(6,317)	1,196
Increase in net pension liability and pension-related deferred outflows and inflows of resources	44,819	8,543	53,362
Total adjustments	<u>2,354,989</u>	<u>165,418</u>	<u>2,520,407</u>
Net cash provided by operating activities	<u>\$ 3,191,673</u>	<u>96,738</u>	<u>3,288,411</u>
Noncash capital and related financing activities:			
Contributions of capital assets	<u>\$ 2,803,876</u>	<u>492,401</u>	<u>3,296,277</u>

See accompanying notes to financial statements.



City of Belton, Texas
Notes to Financial Statements

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City of Belton, Texas

Notes to Financial Statements

September 30, 2017

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Belton, Texas (the “City”) was founded in 1850 and chartered in January of 1852 under provisions of the Constitution of the State of Texas. The City operates under a home rule charter which was approved by the electorate August 20, 1951, rewritten and approved May 5, 1990, and again rewritten and approved May 7, 2005. The charter provides for the Council-Manager form of government for the City. The Council is the legislative and governing body of the City and has control of all the City finances, property, functions, services, affairs and programs, subject to the terms and provisions of the City Charter. The City Manager is the chief executive and administrative officer of the City and is responsible to the Council for the proper administration of all the affairs and business of the City. As authorized by its charter, the City provides the following services: public safety (police and fire), highways and streets, sanitation and health, public improvements, planning and zoning, recreation, general administrative services, and water, sewer, and drainage utilities.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City did not have any blended component units. 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 government.

Discretely presented component unit - The Belton Economic Development Corporation, Inc. (the “Development Corporation”) is a governmental nonprofit corporation organized for the purpose of promoting, assisting, and enhancing economic development activities of the City of Belton, Texas. The City Council appoints a governing body that is not substantively the same as the governing body of the primary government. Budgets of the Corporation and debt to be incurred must be approved by the Council.

Financial statements for the Development Corporation may be obtained from the finance department of the City.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component unit. Governmental activities, which normally are

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements (continued)

supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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 financial 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 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 City 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,

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

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

are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as another financing source.

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

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

The *Water and Sewer Fund* accounts for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, financing and related debt service, billing, and collection.

The *Drainage Fund* accounts for operations related to providing storm drainage service to the citizens of Belton. All activities necessary to provide such services are accounted for in this fund including, but not limited to, operations, maintenance, financing and related debt service, billing, and collection.

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

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund 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 nonoperating revenues and expenses.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between thirty and ninety days prior to the beginning of each fiscal year, the City Manager submits a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are held on the proposed budget and on the revised budget, if applicable.
3. Prior to September 28, but no sooner than five days after the final public hearing, the budget is legally enacted through passage of an ordinance. If not accepted and formally approved by the City Council before September 28, the budget as submitted by the City Manager is automatically adopted.
4. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Supplemental appropriations during the year were not significant.

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Budgets and Budgetary Accounting (continued)

5. A provision is made in the annual budget of the General Fund for a contingent appropriation not to exceed three percent of the total General Fund expenditures to be used in the case of unforeseen expenditures. This contingency is under the control of the City Manager and distributed by him. Disbursements of this appropriation are transferred to the department incurring the expenditure.
6. Annual budgets are legally adopted for the General Fund, the Hotel/Motel Tax Special Revenue Fund, the Debt Service Fund, the TIRZ Special Revenue Fund, the Water and Sewer Fund, and the Drainage Fund. Certain differences exist between the basis of accounting used for budgetary purposes and that used for financial reporting in accordance with generally accepted accounting principles (“GAAP”). Budgets are not prepared for capital project funds because all significant expenditures are based on fixed-bid contracts, which are controlled by management in the initial project planning stages.
7. Budget appropriations lapse at year-end and do not carry forward to future periods. The reported budgetary data has been revised for amendments authorized during the year.
8. The level of control (level at which expenditures may not exceed budget) is the fund.

The City prepares its annual appropriated budgets on a budgetary basis which differs from the GAAP basis. The budget and all transactions of the General Fund are presented in accordance with the City’s budgetary basis in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgetary Basis to provide a meaningful comparison of actual results with the budget. The major difference between the budgetary basis and the GAAP basis is that revenues, expenditures and other financing sources (uses) of certain activities are not budgeted. Adjustments necessary to convert the net change in fund balance on the budgetary basis to a GAAP basis for the General Fund are provided below:

Net change in fund balance - budgetary basis	\$ 70,822
Activities not included in the General Fund budget	<u>154,583</u>
Net change in fund balance - GAAP basis	<u>\$ 225,405</u>

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental funds. Encumbrances do not constitute expenditures or liabilities because the commitments lapse at year-end and must be budgeted in the following year. At year-end, the amounts of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General fund	\$ 20,202
Nonmajor governmental funds	1,179,610
Water and sewer fund	251,782
Drainage fund	<u>1,500</u>
Total primary government	<u>\$ 1,453,094</u>
Discretely present component unit	<u>\$ 16,798</u>

F. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, external investment pools and deposits in the City's internal cash and investment pool.

State statutes and the City's investment policy authorize the City to invest in obligations of the United States and its agencies, certificates of deposit, and public funds investment pools.

Investments are reported at fair value. The City invests in public funds investment pools that were created to function as money market mutual funds within appropriate state laws and regulations. Each of these public funds investment pools seek to maintain a constant \$1.00 net asset value per share.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances

City of Belton, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

G. Receivables and Payables (continued)

outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 30 percent of outstanding property taxes at September 30, 2017.

H. Inventory

The City does not maintain any significant amount of supplies. Supplies are expensed when the purchase is made.

I. Restricted Assets

Proceeds related to the Texas Community Block Development Grant program (CDBG) are classified as restricted assets on the balance sheet because their use is limited to projects approved under CDBG guidelines.

J. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Infrastructure assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense that relates to the cost of acquiring or constructing fixed assets in the enterprise fund is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction.

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

J. Capital Assets (continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	4 – 50
Machinery and equipment	5 – 15
Infrastructure	10 – 25

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Net Position Flow Assumption

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

M. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

M. Fund Balance Flow Assumptions (continued)

unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

N. Pensions

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

O. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave for employees other than those employed under the civil service statute, outlined in local government code chapter 143. Those employed under the rules of civil service may accumulate sick leave that is payable upon their separation from the City, up to the maximum prescribed under the statute. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated vacation leave, which is expected to be liquidated with expendable available financial resources, is reported as a program expense and fund liability in the general fund. Amounts of accumulated vacation leave within the governmental funds that are not expected to be liquidated with expendable available financial resources are reported as a long-term liability on the statement of net position. No expenditure is reported for these amounts in the fund financial statements. Accumulated vacation leave of proprietary fund types are recorded as an expense and liability of those funds as the benefits accrue to employees.

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

P. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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.

Q. Fund Balance

In the fund financial statements, governmental funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council (the City's highest level of decision-making authority) by adoption of an ordinance prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken to remove or revise the limitation. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Through a provision in the City's charter, the City Manager may assign fund balance. The City Council may also assign fund balance by ordinance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

For the classification of governmental fund balances, the City considers expenditures to be made from the most restrictive first when more than one classification is available.

City of Belton, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

Q. Fund Balance (continued)

	<u>General</u>	<u>Debt Service</u>	<u>Other Funds</u>	<u>Totals</u>
Nonspendable:				
Prepaid items	\$ 4,409	-	-	4,409
Restricted for:				
Court technology and security	-	-	37,976	37,976
Public safety	10,936	-	68,645	79,581
Public access facilities	264,425	-	-	264,425
Cemetery	3,140	-	-	3,140
Debt service	-	169,940	-	169,940
Capital projects and equipment	-	-	1,310,998	1,310,998
Economic development	-	-	541,585	541,585
Committed for:				
Economic development	-	-	7,034	7,034
Assigned for:				
Civil service sick pay and appeals	824,834	-	-	824,834
Culture and recreation	35,744	-	-	35,744
Capital projects and equipment	-	-	1,912,218	1,912,218
Unassigned	<u>5,104,032</u>	<u>-</u>	<u>(584)</u>	<u>5,103,448</u>
	<u>\$ 6,247,520</u>	<u>169,940</u>	<u>3,877,872</u>	<u>10,295,332</u>

R. Net Position

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

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

S. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains

City of Belton, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

S. Reconciliation of Government-wide and Fund Financial Statements (continued)

explains, “long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$15,763,424 difference are as follows:

General obligation bonds	\$ 13,527,827
Premium on general obligation bonds	30,429
Compensated absences	1,091,271
Accrued interest payable	69,052
Net pension liability	2,102,437
Pension-related deferred outflows of resources	(1,215,869)
Pension-related deferred inflows of resources	<u>158,277</u>
	<u>\$ 15,763,424</u>

II. Deposits and Investments

Investments of the City at September 30, 2017, consist of investments in Texas Local Government Investment Pool (“TexPool”), in Texas Local Government Investment Pool Prime (“TexPool Prime”), in Texas Short-Term Asset Reserve Program (“TexSTAR”), in TexSTAR Local Government Investment Cooperative (“LOGIC”), and in Texas Cooperative Liquid Assets Securities System (“Texas CLASS”) of \$630,356, \$7,071,593, \$4,100,447, \$7,081,153, and \$7,072,771, respectively.

Credit Risk: For an investment, credit risk is the risk that an investment issuer or other counterparty to an investment will not fulfill obligations. The Public Funds Investment Act (Government Code Chapter 2256) restricts the types of investments in which the City may invest. The City’s investment policy addresses credit quality by further restricting authorized investments to obligations of the United States and its agencies, and public funds investment pools rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The City’s investments in TexPool, TexPool Prime, TexSTAR, LOGIC, and Texas CLASS are rated AAAM by Standard & Poors.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City will not invest in securities maturing more than two years from the date of purchase, and the composite portfolio will have a weighted average maturity of 365 days or less. The weighted average maturities of TexPool, TexPool Prime, TexSTAR, LOGIC, and Texas CLASS are 37, 51, 29, 42, and 53 days, respectively, as of September 30, 2017.

City of Belton, Texas

Notes to Financial Statements (Continued)

II. Deposits and Investments (continued)

Custodial Credit Risk: The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City policy requires all deposits to be fully secured in accordance with state law, by either surety bonds, letters of credit of the United States or its agencies and instrumentalities, or by eligible securities held by an independent third-party custodian. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateralized securities that are in the possession of an outside third party. The City's investment policy requires that the purchase of investment securities be settled on a delivery basis and that ownership of all securities be perfected in the name of the City.

The City uses the following external public funds investment pools:

TexPool and TexPool Prime: The Texas Local Government Investment Pool ("TexPool") and the Texas Local Government Investment Pool Prime ("TexPool Prime") were created by an inter-local contract under the laws of the State of Texas and are governed by the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexPool and TexPool Prime are governed by the Comptroller of Public Accounts as public funds investments pools through the Texas Treasury Safekeeping Trust Company. The Comptroller is the sole officer, director, and shareholder of the Trust Company.

The Comptroller and the Texas Treasury Safekeeping Trust Company have contracted with Federated Investors, Inc., as administrator and investment manager for the TexPool Portfolios. TexPool and TexPool Prime use amortized cost rather than the fair value to report net position to compute share prices.

TexSTAR: The Texas Short-Term Asset Reserve Program ("TexSTAR") was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexStar's governing body is a five-member Board of Directors consisting of representatives of three participants and one member designated by each of the co-administrators. JPMorgan Investment Management, Inc. (the investment manager) and First Southwest Company, LLC serve as co-administrators for TexSTAR. TexSTAR uses amortized cost rather than the fair value to report net position to compute share prices.

LOGIC: The Local Government Investment Cooperative ("LOGIC") was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas

City of Belton, Texas

Notes to Financial Statements (Continued)

II. Deposits and Investments (continued)

Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC's governing body is a five-member Board of Directors comprised of employees, officers or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators for LOGIC. JPMorgan Investment Management, Inc. (the investment manager) and First Southwest Company, LLC serve as co-administrators. LOGIC uses amortized cost rather than the fair value to report net position to compute share prices.

Texas CLASS: The Texas Cooperative Liquid Assets Securities System ("Texas CLASS") was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Texas CLASS's governing body is a three-member Board of Trustees. Public Trust Advisors, LLC serve as the pool's administrator and investment adviser. Texas CLASS uses amortized cost rather than the fair value to report net position to compute share prices.

A reconciliation of deposits and investments as shown on the statement of net position:

Cash on hand	\$ 4,967
Carrying amount of deposits	10,027,142
Carrying amount of investments	<u>25,956,320</u>
Total	<u>\$ 35,988,429</u>
Per the statement of net position for the City:	
Cash and cash equivalents	\$ 25,812,755
Restricted cash and cash equivalents	<u>3,516,762</u>
	29,329,517
Per the statement of net position for the Belton Economic Development Corporation, Inc.:	
Cash and cash equivalents	<u>6,658,912</u>
Total	<u>\$ 35,988,429</u>

III. Receivables

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

City of Belton, Texas

**Notes to Financial Statements
(Continued)**

III. Receivables (continued)

	General	Debt Service	Enterprise Funds		Nonmajor Governmental Funds	Total
			Water and Sewer	Drainage		
Receivables:						
Taxes	\$ 1,088,342	40,304	-	-	36,701	1,165,347
Water/sewer	-	-	1,191,704	-	-	1,191,704
Storm drainage	-	-	-	60,273	-	60,273
Ambulance	5,544,777	-	-	-	-	5,544,777
Other	458,168	-	-	-	132	458,300
	<u>7,091,287</u>	<u>40,304</u>	<u>1,191,704</u>	<u>60,273</u>	<u>36,833</u>	<u>8,420,401</u>
Less:						
Allowance for uncollectibles	<u>5,377,765</u>	<u>13,809</u>	<u>15,065</u>	<u>16,561</u>	<u>-</u>	<u>5,423,200</u>
	<u>\$ 1,713,522</u>	<u>26,495</u>	<u>1,176,639</u>	<u>43,712</u>	<u>36,833</u>	<u>2,997,201</u>

IV. Property Taxes

The City's property taxes are levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The assessed value for the tax roll of January 1, 2016, upon which the 2017 fiscal year levy was based, was \$997,698,241.

The tax levy of October 2016 set a tax rate of \$0.6598 per \$100 of assessed valuation at 100 percent of assumed market value. The City may levy a tax of up to \$1.90 per \$100 of assessed valuation.

Taxes were due January 31, 2017, at which time a lien attaches for unpaid taxes. Tax collections during the fiscal year ended September 30, 2017, for the fiscal year 2017 levy were 99.10 percent of the total tax levy for that year.

Legislation has been passed by the Texas Legislature, which affects the method of property assessment and tax collection in the City. This legislation, with certain exceptions, exempts intangible personal property and household goods. In addition, this legislation creates a "property tax code" and provides, among other things, for the establishment of county appraisal districts and for a state property tax board.

The appraisal of property within the City is the responsibility of the county appraisal district. The appraisal district is required under the property tax code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least every five years. The City may challenge appraised values established

City of Belton, Texas

Notes to Financial Statements
(Continued)

IV. Property Taxes (continued)

by the appraisal district through various appeals and, if necessary, legal action. State law provides that the City Council set tax rates on City property. State law provides that the City Council sets the ad valorem tax rates on taxable property within the City. However, if the adopted maintenance and operations tax rate (which excludes the tax rate necessary to service the debt obligations of the City) exceeds the effective maintenance and operations tax rate by more than eight percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent above the effective rate.

V. Capital Assets

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 2,486,662	107,865	-	2,594,527
Construction in progress	7,751,656	3,345,833	(7,717,616)	3,379,873
Total capital assets not being depreciated	10,238,318	3,453,698	(7,717,616)	5,974,400
Capital assets, being depreciated:				
Buildings	\$ 9,163,997	32,682	-	9,196,679
Improvements other than buildings	3,691,185	370,966	(37,500)	4,024,651
Machinery and equipment	5,636,938	726,004	(223,521)	6,139,421
Infrastructure	26,784,319	8,971,692	(1,219,512)	34,536,499
Total capital assets, being depreciated	45,276,439	10,101,344	(1,480,533)	53,897,250
Less accumulated depreciation for:				
Buildings	(3,391,421)	(353,969)	-	(3,745,390)
Improvements other than buildings	(1,840,706)	(199,868)	18,375	(2,022,199)
Machinery and equipment	(3,652,895)	(515,215)	207,523	(3,960,587)
Infrastructure	(11,720,124)	(1,645,617)	205,395	(13,160,346)
Total accumulated depreciation	(20,605,146)	(2,714,669)	431,293	(22,888,522)
Total capital assets, being depreciated, net	24,671,293	7,386,675	(1,049,240)	31,008,728
	\$ 34,909,611	10,840,373	(8,766,856)	36,983,128

City of Belton, Texas

**Notes to Financial Statements
(Continued)**

V. Capital Assets (continued)

Primary Government (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Business-type activities:</i>				
Capital assets, not being depreciated:				
Land	368,601	1,200	-	369,801
Construction in progress	<u>1,587,226</u>	<u>1,230,136</u>	<u>(659,486)</u>	<u>2,157,876</u>
Total capital assets not being depreciated	<u>1,955,827</u>	<u>1,231,336</u>	<u>(659,486)</u>	<u>2,527,677</u>
Capital assets, being depreciated:				
Buildings	84,528	20,265	-	104,793
Machinery and equipment	2,486,294	423,143	(95,445)	2,813,992
Infrastructure	<u>51,433,307</u>	<u>4,025,736</u>	<u>(850,353)</u>	<u>54,608,690</u>
Total capital assets being depreciated	<u>54,004,129</u>	<u>4,469,144</u>	<u>(945,798)</u>	<u>57,527,475</u>
Less accumulated depreciation for:				
Buildings	(12,480)	(7,723)	-	(20,203)
Machinery and equipment	(1,024,538)	(259,057)	95,445	(1,188,150)
Infrastructure	<u>(17,937,764)</u>	<u>(2,647,968)</u>	<u>850,353</u>	<u>(19,735,379)</u>
Total accumulated depreciation	<u>(18,974,782)</u>	<u>(2,914,748)</u>	<u>945,798</u>	<u>(20,943,732)</u>
Total capital assets, being depreciated, net	<u>35,029,347</u>	<u>1,554,396</u>	<u>-</u>	<u>36,583,743</u>
	<u>\$ 36,985,174</u>	<u>2,785,732</u>	<u>(659,486)</u>	<u>39,111,420</u>

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

Governmental activities:	
General government	\$ 79,415
Public safety	514,449
Highways and streets, including depreciation of general infrastructure assets	1,226,975
Planning	11,316
Culture and recreation	825,419
Solid waste	23,238
Maintenance	<u>33,857</u>
Total depreciation expense - governmental activities	<u>\$ 2,714,669</u>
Business-type activities:	
Water and sewer	\$ 2,750,526
Drainage	<u>164,222</u>
Total depreciation expense - business-type activities	<u>\$ 2,914,748</u>

City of Belton, Texas

Notes to Financial Statements
(Continued)

V. Capital Assets (continued)

Primary Government (continued)

The City has active construction projects as of September 30, 2017. At year-end, the City's construction commitments for governmental activities are as follows:

<u>Project Title</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
Sparta/Commerce Engineering and ROW	\$ 341,903	15,406
Sparta/Commerce Construction	1,898,092	1,155,873
Sidewalks - S Main	91,508	376,995
South Main Water Line and Sidewalks	134,546	32,889
TIRZ Street Improvements	303,232	22,041
PD Renovation	490,704	122,948
Chisholm Trail Hike & Bike Phase II	119,888	364,918
Total	<u>\$ 3,379,873</u>	<u>2,091,070</u>

The projects will be financed with available resources.

At September 30, 2017, the City's construction commitments for business-type activities are as follows:

<u>Project Title</u>	<u>Expended to Date</u>	<u>Remaining Commitment</u>
SCADA System Upgrade	\$ 7,611	2,254
Wireless Tower Installation	975	3,884
N Belton Water Tank Engineering	58,166	75,297
N Belton Water Tank Line Engineering	20,142	50,158
Sparta Road Pump Station	6,187	11,885
S. Main Water (Ave C to J)	579,792	117,096
TBWWTP Redevelopment Phase I	991,633	392,092
South Belton Sewer - Design	493,370	61,241
Total	<u>\$ 2,157,876</u>	<u>713,907</u>

The projects will be financed with available resources.

City of Belton, Texas

Notes to Financial Statements
(Continued)

V. Capital Assets (continued)

Discretely Presented Component Unit

Capital asset activity for the Development Corporation for the year ended September 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 877,834	-	-	877,834
Construction in progress	-	226,360	-	226,360
Total capital assets not being depreciated	877,834	226,360	-	1,104,194
Capital assets, being depreciated:				
Buildings	1,261,523	-	-	1,261,523
Infrastructure	2,937,556	-	-	2,937,556
Total capital assets being depreciated	4,199,079	-	-	4,199,079
Less accumulated depreciation for:				
Buildings	(235,113)	(39,411)	-	(274,524)
Infrastructure	(1,582,493)	(148,217)	-	(1,730,710)
Total accumulated depreciation	(1,817,606)	(187,628)	-	(2,005,234)
Total capital assets, being depreciated, net	2,381,473	(187,628)	-	2,193,845
	<u>\$ 3,259,307</u>	<u>38,732</u>	<u>-</u>	<u>3,298,039</u>

At September 30, 2017, the City's construction commitments for the discretely presented component unit are as follows:

Project Title	Expended to Date	Remaining Commitment
Building 117 N East Street	\$ 175,310	250,000
Avenue D Engineering	51,050	256,950
Total	<u>\$ 226,360</u>	<u>506,950</u>

The projects will be financed with available resources.

VI. Long-Term Debt

The City issues general obligation bonds and combination tax and revenue certificates of obligation to provide funds for the acquisition and construction of major capital facilities for both governmental and business-type activities. The amount of this debt that is reported

City of Belton, Texas

Notes to Financial Statements
(Continued)

VI. Long-Term Debt (continued)

reported in proprietary funds is that portion that directly relates to a given proprietary fund and that is expected to be repaid from the resources of a proprietary fund. Surplus water and sewer revenues are pledged for the combination tax and revenue certificates of obligation; however, the pledge is limited to only an amount not to exceed \$1,000.

The following is a summary of changes in long-term debt for the City for the year ended September 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 14,384,652	2,270,000	(3,126,825)	13,527,827	1,010,538
Premium	33,297	-	(2,868)	30,429	-
Net pension liability	2,098,176	540,933	(536,672)	2,102,437	-
Compensated absences	<u>1,049,108</u>	<u>604,324</u>	<u>(562,161)</u>	<u>1,091,271</u>	<u>362,441</u>
	<u>\$ 17,565,233</u>	<u>3,415,257</u>	<u>(4,228,526)</u>	<u>16,751,964</u>	<u>1,372,979</u>
Business-type activities:					
General obligation and revenue bonds	\$ 12,072,193	10,935,000	(2,330,025)	20,677,168	959,462
Premium	267,819	286,635	(37,214)	517,240	-
Net pension liability	395,913	101,406	(103,187)	394,132	-
Compensated absences	<u>55,460</u>	<u>51,667</u>	<u>(50,473)</u>	<u>56,654</u>	<u>38,091</u>
	<u>\$ 12,791,385</u>	<u>11,374,708</u>	<u>(2,520,899)</u>	<u>21,645,194</u>	<u>997,553</u>

Pension liabilities and compensated absences for governmental activities are generally liquidated by the General Fund.

Long-term debt of the City's governmental activities at September 30, 2017, is comprised of the following:

\$2,480,000 Series 2003 general obligation bonds due in annual installments of \$130,000 to \$200,000 through 2023; interest at 4.15%	\$ 1,065,000
\$4,500,000 Series 2005 general obligation bonds due in annual installments of \$140,000 to \$275,000 through 2025; interest at 3.54%	1,865,000
\$1,485,000 Series 2008 combination tax and revenue certificates of obligation due in annual installments of \$59,400 to \$107,663 through 2028; interest at 4.19%	957,827

City of Belton, Texas

Notes to Financial Statements
(Continued)

VI. Long-Term Debt (continued)

\$6,825,000 Series 2013 combination tax and revenue certificates of obligation due in annual installments of \$20,000 to \$520,000 through 2033; interest at 3.08%	\$ 6,390,000
\$1,070,000 Series 2015 combination tax and revenue certificates of obligation due in annual installments of \$45,000 to \$65,000 through 2035; interest at 2.77%	980,000
\$2,270,000 Series 2017 general obligation refunding certificates of obligation due in annual installments of \$135,000 to \$175,000 through 2027; interest at 4.13%	<u>2,270,000</u>
	<u>\$ 13,527,827</u>

Annual debt service requirements for governmental activities to maturity are as follows:

Year Ended September 30, 2017	Principal	Interest
2018	\$ 1,010,538	408,150
2019	1,079,251	379,404
2020	1,142,963	348,062
2021	1,196,675	314,261
2022	1,226,675	278,457
2023-2027	4,369,062	910,721
2028-2032	2,787,663	365,625
2033-2037	<u>715,000</u>	<u>27,705</u>
	<u>\$ 13,527,827</u>	<u>3,032,385</u>

Long-term debt of the City's business-type activities at September 30, 2017, is comprised of the following:

\$4,360,449 Series 2002 combination tax and revenue certificates of obligation due in annual installments of \$260,000 to \$360,000 through 2022; interest at 4.4%	\$ 1,650,000
\$515,000 Series 2008 combination tax and revenue certificates of obligation due in annual installments of \$20,600 to \$37,337 through 2028; interest at 4.19%	332,168

City of Belton, Texas

Notes to Financial Statements
(Continued)

VI. Long-Term Debt (continued)

\$8,595,000 Series 2015 combination tax and revenue certificates of obligation due in annual installments of \$345,000 to \$550,000 through 2035; interest at 2.77%	\$ 7,900,000
\$9,585,000 Series 2016 combination tax and revenue certificates of obligation due in annual installments of \$85,000 to \$665,000 through 2036; interest at 3.00%	9,445,000
\$1,350,000 Series 2017 general obligation refunding certificates of obligation due in annual installments of \$105,000 to \$170,000 through 2027; interest at 4.13%	<u>1,350,000</u>
	<u>\$ 20,677,168</u>

Annual debt service requirements to maturity for business-type activities are as follows:

Year Ended September 30, 2017	Principal	Interest
2018	\$ 959,462	597,279
2019	995,750	570,638
2020	1,022,037	542,739
2021	1,048,325	513,596
2022	1,073,325	483,249
2023-2027	5,915,938	1,957,829
2028-2032	5,522,331	1,104,665
2033-2037	<u>4,140,000</u>	<u>290,550</u>
	<u>\$ 20,677,168</u>	<u>6,060,545</u>

The City's bond indentures contain restrictions concerning the maintenance of accounting records as well as reporting the results of the City's operations to specified major bond holders. The City is in compliance with all significant requirements and restrictions.

Discretely Presented Component Unit

The following is a summary of changes in long-term debt of the Development Corporation for the year ended September 30, 2017:

City of Belton, Texas

Notes to Financial Statements
(Continued)

VI. Long-Term Debt (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 88,154	-	(88,154)	-	-
Net pension liability	44,114	15,229	(12,060)	47,283	-
	<u>\$ 132,268</u>	<u>15,229</u>	<u>(100,214)</u>	<u>47,283</u>	<u>-</u>

VII. Interfund Transfers

Interfund transfers for 2017 are as follows:

	<u>Transfers in</u>			<u>Total</u>
	<u>General</u>	<u>Water and Sewer</u>	<u>Other Nonmajor Governmental</u>	
Transfers out:				
General	\$ -	-	1,460,923	1,460,923
Other nonmajor governmental	82,413	140,599	-	223,012
Water and sewer Drainage	448,379	-	215,129	663,508
	-	-	252,077	252,077
	<u>\$ 530,792</u>	<u>140,599</u>	<u>1,928,129</u>	<u>2,347,443</u>

Transfers are used to: (1) move revenues from the fund responsible for collecting them to the fund responsible for expending them as required by statute or budget; and (2) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VIII. Employee Benefits

Pension Plan

Plan Description - 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 System with a six-member Board of Trustees. Although the Governor, with the advice

City of Belton, Texas

Notes to Financial Statements
(Continued)

VIII. **Employee Benefits** (continued)

Pension Plan (continued)

and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report ("CAFR") that can be obtained at www.tmr.com.

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

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

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

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	80
Inactive employees entitled to but not yet receiving benefits	128
Active employees	164

Contributions – The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state 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 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.71% and 7.01% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$586,051 and were equal to the required contributions.

City of Belton, Texas

Notes to Financial Statements
(Continued)

VIII. Employee Benefits (continued)

Pension Plan (continued)

Net Pension Liability – The City’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 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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. 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 Adjustments are used with male rates multiplied by 109% and female rates multiplied by 103% with a three-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. Plan assets are managed on a total return basis with 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

City of Belton, Texas

Notes to Financial Statements
(Continued)

VIII. Employee Benefits (continued)

Pension Plan (continued)

return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

	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 projected 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 Belton, Texas

Notes to Financial Statements
(Continued)

VIII. Employee Benefits (continued)

Pension Plan (continued)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2015	\$ 20,192,117	17,653,914	2,538,203
Changes for the year:			
Service cost	862,169	-	862,169
Interest	1,361,691	-	1,361,691
Difference between expected and actual experience	(111,361)	-	(111,361)
Contributions - employer	-	536,111	(536,111)
Contributions - employee	-	391,895	(391,895)
Net investment income	-	1,193,044	(1,193,044)
Benefit payments, including refunds of employee contributions	(900,011)	(900,011)	-
Administrative expense	-	(13,474)	13,474
Other changes	-	(726)	726
Net changes	1,212,488	1,206,839	5,649
Balance at December 31, 2016	\$ 21,404,605	18,860,753	2,543,852

\$47,283 of the net pension liability of \$2,543,852 is the liability of the Development Corporation, the discretely presented component unit. Detailed information regarding the deferred outflows and inflows of resources related to pensions of the component unit can be found in Note IX.

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 one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate Assumption (6.75%)	1% Increase (7.75%)
City's net pension liability	\$ 5,798,393	2,543,852	(87,265)

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.

City of Belton, Texas

Notes to Financial Statements
(Continued)

VIII. Employee Benefits (continued)

**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 \$936,662.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	190,385
Difference between projected and actual investment earnings	811,081	1,124
Difference in assumption changes	196,948	-
Contributions subsequent to the measurement date	<u>463,119</u>	<u>-</u>
Total	<u>\$ 1,471,148</u>	<u>191,509</u>

The \$463,119 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 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:

<u>Year Ended December 31,</u>	
2018	\$ 282,136
2019	301,713
2020	250,733
2021	<u>(18,062)</u>
Total	<u>\$ 816,520</u>

City of Belton, Texas

Notes to Financial Statements
(Continued)

VIII. Employee Benefits (continued)

Supplemental Death Benefits Plan

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

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

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

The City’s contributions to the SDBF for the years ended September 30, 2017, 2016 and 2015, were \$12,689, \$13,501, and \$13,578, respectively, which equaled the required annual contributions each year.

IX. Deferred Outflows and Inflows of Resources

The statements of financial position and the balance sheet include the following deferred outflows/inflows of resources at September 30, 2017:

	Statements of Net Position			Balance Sheet - Governmental Funds	
	Governmental Activities	Business-Type Activities	Belton Economic Development Corporation, Inc.	General Fund	Debt Service Fund
Deferred outflows of resources:					
Pension - post measurement date contributions	\$ 382,757	71,754	8,608	-	-
Pension - net differences between projected and actual earnings	670,340	125,665	15,076	-	-
Pension - differences in assumption changes	162,772	30,515	3,661	-	-
	<u>\$ 1,215,869</u>	<u>227,934</u>	<u>27,345</u>	<u>-</u>	<u>-</u>

City of Belton, Texas

Notes to Financial Statements
(Continued)

IX. Deferred Outflows and Inflows of Resources (continued)

	Statements of Net Position			Balance Sheet - Governmental Funds	
	Governmental	Business-Type	Belton Economic	General	Debt
	Activities	Activities	Development Corporation, Inc.	Fund	Service Fund
Deferred inflows of resources:					
Unavailable revenue - property taxes	\$ -	-	-	433,161	26,495
Pension - net differences between projected and actual earnings	928	175	21	-	-
Pension - net differences between expected and actual experience	157,349	29,497	3,539	-	-
	<u>\$ 158,277</u>	<u>29,672</u>	<u>3,560</u>	<u>433,161</u>	<u>26,495</u>

Deferred Outflows of Resources. Post-measurement date contributions will be recognized as a reduction of the net pension liability in the following fiscal year. The pension-related net differences between projected and actual earnings and changes in assumptions will be recognized in pension expense over four years and three and one-half years, respectively.

Deferred Inflows of Resources. The governmental funds, under the modified accrual basis of accounting, report unavailable revenues from property taxes, which is deferred and recognized as an inflow of resources in the period that the amounts become available. The pension-related difference between projected and actual earnings and expected and actual experience will be recognized in pension expense over four years and the average of the expected remaining service lives of all active employees, respectively.

X. Risk Management

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool was created for the purpose of providing coverage against risks, which are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, property, and workers' compensation coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial companies reinsurance contracts. The Pool agrees to handle all liability, property, and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The City also carries commercial insurance on all other risks of loss, including employee health and accident insurance.

The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the past three years.

City of Belton, Texas

Notes to Financial Statements

(Continued)

XI. Commitments and Contingencies

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

The Development Corporation has entered into several economic development agreements with business that will provide financial incentives to the businesses based on specific capital investment, employment or other economic development measures. Commitments made under the agreements total approximately \$2.5 million.

The City has entered into a long-term agreement to purchase water from the Brazos River Authority (the "Authority"). The agreement requires the City to pay for a certain portion of the water rights, whether or not it actually withdraws the full amount of water to which it is entitled. The cost of the water may be adjusted each year based on changes in the consumer price index. Further, additional costs imposed on the Authority (by taxation or as a result of new regulations) may be passed through to the City. The agreement expires in 2042. The City's cost under the agreement for the year ended September 30, 2017, was \$33,800.

Also, the City has entered into a long-term agreement to purchase water from Bell County Water Control and Improvement District No. 1 (the "District"). The District serves six civilian resale customers (cities and water districts) and the Fort Hood Military Reservation. Under the agreement, the City pays its proportionate share of fixed capital costs (debt service) and operating costs (purchasing, producing, treating and delivering water) of the District. Consequently, the price of the water will vary over the term of the agreement. In addition to capital and operating costs, the contract with the District requires the City to pay for water rights, both for water currently being used (election use water) and for rights to future water (option water). The cost of option water is paid whether or not the City actually withdraws the full amount of water to which it is entitled. The cost of both election use and option water may be adjusted annually each year based on changes in the consumer price index. The agreement remains in effect until all bonds of the District are repaid, currently 2018. Charges for water under the agreement for the year ended September 30, 2017, were \$1,412,639.

Finally, the City entered into a tri-party agreement with the City of Temple, Texas ("Temple") and the Authority, whereby the Authority operates and maintains a wastewater treatment plant for Temple and the City (currently known as the Temple Belton Regional Sewerage System). The City is charged an amount equal to a pro-rata portion of actual expenditures based on its percentage of flow through the plant. The plant is jointly owned

City of Belton, Texas

Notes to Financial Statements (Continued)

XI. Commitments and Contingencies (continued)

by Temple and the City but a separate legal entity was not created. Consequently, Temple and the City each report their proportionate share of capital assets of the plant. The City's expense under the tri-party agreement for the year ended September 30, 2017, was \$373,099.

The City is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate outcome of these claims will not have a material adverse effect on the City's financial position.

XII. Related Organizations

The following entities are related organizations to which the City appoints board members but for which the City has no significant financial accountability: Housing Authority of the City of Belton, Texas; Public Property Finance Corporation of Texas; and Texas Dormitory Finance Authority.

XIII. Tax Abatements

The City enters into ad valorem tax abatement agreements with businesses pursuant to its Tax Abatement Policy and Texas Tax Code Chapter 311, Texas Tax Code Chapter 312, Texas Local Government Code Chapter 380 and Section 52-a of the State Constitution of Texas. Under its policy, the City may grant ad valorem tax abatements up to 100% of a business's ad valorem tax bill for the purpose of the promotion of high quality commercial and industrial development in all parts of the City, and an ongoing improvement of the quality of life of its citizens.

For the fiscal year ended September 30, 2017, the City abated ad valorem taxes totaling \$58,595, as detailed below:

- A 40 % ad valorem tax abatement on certain improvements to Associated Supply Company, Inc. for the construction of a new facility and the creation of 12 – 30 permanent jobs. The fiscal year 2017 abatement amounted to \$2,511. The City may recapture the abated taxes should Associated Supply Company, Inc. become delinquent in its payment to the City of any ad valorem taxes not abated or breach any other terms set forth in the abatement agreement.
- A 100 % ad valorem tax abatement on certain improvements to CGI Technologies, Inc. for the construction of a new facility. The fiscal year 2017 abatement amounted to \$23,981. The City may recapture the abated taxes should CGI Technologies, Inc. become delinquent in its payment to the City of any ad valorem taxes not abated or breach any other terms set forth in the abatement agreement.

City of Belton, Texas

Notes to Financial Statements (Continued)

XIII. Tax Abatements (continued)

- A 100% ad valorem tax abatement on certain improvements to CMH Manufacturing, Inc. for the modernization/expansion of a new facility and the creation of 175 permanent jobs for a total of 385 permanent jobs. The fiscal year 2017 abatement amounted to \$8,328. The City may recapture the abated taxes should CMH Manufacturing, Inc. become delinquent in its payment to the City of any ad valorem taxes not abated, fall below the 175 additional permanent job threshold for an extended period of time or breach any other terms set forth in the abatement agreement.
- A 100 % ad valorem tax abatement on certain equipment to Wire Rope Industries USA, Inc. for the purchase and installation of new equipment and the creation of 4 permanent jobs for a total of 22 permanent jobs. The fiscal year 2017 abatement amounted to \$23,775. The City may recapture the abated taxes should Wire Rope Industries USA, Inc. become delinquent in its payment to the City of any ad valorem taxes not abated, fall below 18 permanent jobs for an extended period of time or breach any other terms set forth in the abatement agreement.

XIV. Authoritative Pronouncements Not Yet Effective

A summary of pronouncements issued by the Governmental Accounting Standards Board (GASB), which may impact the City but are not yet effective follows. The City has not yet determined the effects of the adoption of these pronouncements on the financial statements.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (issued June 2015) – the objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”) and to improve information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 83, Certain Asset Retirement Obligations (issued November 2016) – the objective of this statement is to enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations, including obligations that may not have been previously reported. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018.

City of Belton, Texas

Notes to Financial Statements (Continued)

XIV. Authoritative Pronouncements Not Yet Effective (continued)

GASB Statement No. 84, *Fiduciary Activities* (issued January 2017) – the objective of this statement is to enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018.

GASB Statement No. 85, *Omnibus 2017* (issued March 2017) - the objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* (issued May 2017) – the objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. The statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017.

GASB Statement No. 87, *Leases* (issued June 2017) – the objective of this statement is to increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The statement will also require notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[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.]

**CITY OF BELTON, TEXAS, COMBINATION TAX AND
LIMITED REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,185,000**

AS BOND COUNSEL FOR THE CITY OF BELTON, TEXAS (the "City") in connection with the issuance of the certificates of obligation described above (the "Certificates"), we have examined the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates specified in the text of the Certificates and in the ordinance of the City adopted on June 26, 2018 authorizing the issuance of the Certificates (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, certified copies of the pertinent proceedings of the City, and other pertinent documents authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued and delivered in accordance with law; that the Certificates, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the City; that ad valorem taxes sufficient to provide for the payment of the interest on and the principal of the Certificates have been levied and pledged for such purpose, within the limits prescribed by law, on taxable property within the City; and that the Certificates are additionally secured by and payable from a limited pledge of the surplus revenues of the City's combined waterworks and sewer 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 City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or part of the net revenues of the City's combined waterworks and sewer system, which amount shall not exceed \$1,000, all as provided in the Ordinance.

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 alternative minimum tax preferred 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 by the City with certain representations and 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 upon a failure by the City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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 a 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 City as the taxpayer. We observe that the City 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.

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. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. 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 City, and, in that capacity, we have been engaged by the City 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. 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 City, 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 City as to the current outstanding indebtedness of the City and the assessed valuation of taxable property within the City and the sufficiency of the revenues pledged by the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

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.

Respectfully,

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SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES