

**OFFICIAL NOTICE OF SALE,
OFFICIAL BID FORM,
AND
PRELIMINARY OFFICIAL STATEMENT**

\$2,000,000*

**CITY OF BELLMEAD, TEXAS
(McLennan County, Texas)**

**COMBINATION TAX AND LIMITED PLEDGE
REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2018**

**To be Designated by the City as
“QUALIFIED TAX-EXEMPT OBLIGATIONS”**

**Bids due
Tuesday, August 14, 2018
at
12:00 P.M. (Noon) Central Time**

*Preliminary, subject to change based on bid structures. See “THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES” IN THE OFFICIAL NOTICE OF SALE.

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This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Certificates defined and described herein. The invitation for bids on the Certificates is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

OFFICIAL NOTICE OF SALE

The Issuer will designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions.

\$2,000,000*

CITY OF BELLMEAD, TEXAS

(A political subdivision of the State of Texas located in McLennan County, Texas)

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID: The City Council (the “City Council”) of the City of Bellmead, Texas (the “City” or the “Issuer”) is offering for sale at competitive bid its \$2,000,000* Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the “Certificates”).

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 12:00 P.M. (Noon) Central Time, on August 14, 2018. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System (“PARITY”) and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on August 14, 2018 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by email to mmcliney@samcocapital.com. If there is a malfunction of the electronic bidding process and a bidder submits a bid via email or facsimile, please call 210-832-9760 to notify the Financial Advisor (defined below) of the incoming bid. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, Official Bid Form and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact PARITY, c/o Ipreo Holdings LLC, 1359 Broadway, New York, New York 10018, 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being at the sole risk of the prospective bidder.

OPENING OF BIDS: Bids will be opened and publicly read at 12:00 P.M. (Noon) Central Time, on Tuesday, August 14, 2018, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the “Financial Advisor”) and the City Council shall provide final approval of the award at a City Council meeting later that evening. The Mayor of the City or his representative shall award the Certificates as described in the section entitled “AWARD AND SALE OF THE CERTIFICATES” below.

AWARD AND SALE OF THE CERTIFICATES: By 1:00 P.M. Central Time, on the date set for receipt of bids, the Mayor of the City or his representative shall award the Certificates to **the low qualified bidder (the “Winning Bidder”)**, as described in the section entitled “CONDITIONS OF SALE – Basis of Award” herein subject to final approval of the City Council which will take action to adopt an ordinance (the “Ordinance”) authorizing the issuance and awarding sale of the Certificates or will reject all bids promptly at a scheduled meeting to commence at 6:30 P.M. Central Time on Tuesday, August 14, 2018. The City reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

*Preliminary, subject to change based on bid structures. See “THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES” herein.

THE CERTIFICATES

DESCRIPTION OF CERTAIN TERMS OF THE CERTIFICATES: The Certificates will be dated August 1, 2018 (the “Dated Date”) with interest to accrue from the Dated Date and be payable initially on March 1, 2019, and semiannually on each September 1 and March 1 thereafter until the earlier of stated maturity or prior redemption. The Certificates will be issued as fully registered Certificates in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates (“Beneficial Owners”) will not receive physical delivery of Certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See “BOOK-ENTRY-ONLY SYSTEM” in the Official Statement.) The Certificates will be stated to mature on March 1 in each of the following years in the following amounts:

MATURITY SCHEDULE

(Due March 1)

| Stated Maturity | Principal Amount* | Stated Maturity | Principal Amount* |
|-----------------|-------------------|-----------------|-------------------|
| 2019 | \$ 60,000 | 2029 | \$ 100,000 |
| 2020 | 70,000 | 2030 | 105,000 |
| 2021 | 70,000 | 2031 | 110,000 |
| 2022 | 75,000 | 2032 | 115,000 |
| 2023 | 75,000 | 2033 | 115,000 |
| 2024 | 80,000 | 2034 | 120,000 |
| 2025 | 85,000 | 2035 | 130,000 |
| 2026 | 85,000 | 2036 | 135,000 |
| 2027 | 90,000 | 2037 | 140,000 |
| 2028 | 95,000 | 2038 | 145,000 |

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$2,000,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES: Bidders may provide that all of the Certificates be issued as serial maturities or may provide that any two or more consecutive annual principal amounts be combined into one or more term certificates, not to exceed two term certificates (the “Term Certificates”).

MANDATORY SINKING FUND REDEMPTION: If the Winning Bidder designates principal amounts to be combined into one or more Term Certificates, each such Term Certificate will be subject to mandatory sinking fund redemption commencing on March 1 of the first year which has been combined to form such Term Certificate and continuing on March 1 in each year thereafter until the stated maturity date of that Term Certificate. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption “MATURITY SCHEDULE”. Certificates to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which have been purchased and canceled by the City or have been optionally redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

OPTIONAL REDEMPTION: The City reserves the right, at its option, to redeem the Certificates maturing on or after March 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest as further described in the Official Statement.

*Preliminary; subject to change.

SECURITY FOR PAYMENT: The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council on August 14, 2018, and the City's Home Rule Charter and are payable primarily from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Pledged Revenues being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues that may be pledged to the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance the City retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Certificates are Outstanding, without limitations as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

OTHER TERMS AND COVENANTS: Other terms of the Ordinance and the various covenants of the City contained in the Ordinance are described in the Official Statement, to which reference is made for all purposes.

SUCCESSOR PAYING AGENT/REGISTRAR: The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinance, the City covenants to provide a Paying Agent/Registrar at all times while the Certificates are outstanding, and any Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Certificates. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Certificates.

In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, shall be qualified as described in the Preliminary Official Statement. Upon a change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

CONDITIONS OF SALE

TYPES OF BIDS AND INTEREST RATES: The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Certificates from the Dated Date of the Certificates to the date of Initial Delivery (defined herein) of the Certificates. **No bid producing a cash premium on the Certificates that results in a dollar price of less than 103% nor greater than 108% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Certificates (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Certificates of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Certificates will be awarded to the bidder making a bid that conforms to the specifications herein (the "Winning Bidder" or "Purchaser") and which produces the lowest True Interest Cost (defined herein) rate to the City. The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Certificates on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Certificates plus the premium bid, (but not interest accrued from the Dated Date to the date of their initial delivery to the Purchaser). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the "Code"), relating to the excludability of interest on the Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (on or before the date of initial delivery of the Certificates) a certification as to their initial offering prices of the Certificates (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Official Notice of Sale. (See "ESTABLISHMENT OF ISSUE PRICE" herein.)

ESTABLISHMENT OF ISSUE PRICE:

- (a) The Winning Bidder shall assist the City in establishing the issue price of the Certificates and shall execute and deliver to the City by the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Winning Bidder, the City, and Norton Rose Fulbright US LLP, the City's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Certificates under applicable federal regulations). All actions to be taken by the City under this Official Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by the City's Financial Advisor and any notice or report to be provided to the City may be provided to the City's Financial Advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Certificates) will apply to the initial sale of the Certificates (the “competitive sale requirements”) because:

- (1) the City shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Certificates to the bidder who submits a firm offer to purchase the Certificates at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Certificates, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the Winning Bidder. In such event, the City intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Certificates as the issue price of that maturity (the “hold-the-offering-price rule”). The City shall promptly advise the Winning Bidder, at or before the time of award of the Certificates, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Certificates. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies.** In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

(d) By submitting a bid, the Winning Bidder shall (i) confirm that the underwriters have offered or will offer the Certificates to the public on or before the date of award at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in the bid submitted by the Winning Bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Certificates, that the underwriters will neither offer nor sell unsold Certificates of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

The Winning Bidder shall promptly advise the City when the underwriters have sold 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(e) If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Certificates, the Winning Bidder agrees to promptly report to the City the prices at which the unsold Certificates of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the Delivery Date has occurred, until the 10% test has been satisfied as to the Certificates of that maturity or until all Certificates of that maturity have been sold. The 10% test shall be considered satisfied with respect to a maturity when at least 10% of the Certificates of that maturity have been sold to the public at a particular price.

(f) The City acknowledges that, in making the representation set forth above, the Winning Bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Certificates.

(g) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Certificates of each maturity allotted to it until it is notified by the Winning Bidder that either

the 10% test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the public and (B) to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Certificates to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Certificates of each maturity allotted to it until it is notified by the Winning Bidder or such underwriter that either the 10% test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Winning Bidder or such underwriter and as set forth in the related pricing wires.

(h) Sales of any Certificates to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled "ESTABLISHMENT OF ISSUE PRICE":

- (1) "public" means any person other than an underwriter or a related party,
- (2) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the public),
- (3) a purchaser of any of the Certificates is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (4) "sale date" means the date that the Certificates are awarded by the City to the Winning Bidder.

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: See "THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES" for a description of the City's reservation of the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities.

GOOD FAITH DEPOSIT: A bank cashier's check payable to the order of "City of Bellmead, Texas" in the amount of \$40,000.00, which is 2% of the par value of the Certificates (the "Good Faith Deposit"), is required. The Good Faith Deposit will be retained uncashed by the City until the Certificates are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Certificates; however, should the Purchaser fail or refuse to take up and pay for the Certificates, said Good Faith Deposit is to be cashed by the City and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Certificates has been made.

ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:

New obligation of the City to receive information from winning bidder if bidder is not a publicly traded business entity (a "Privately Held Bidder"). Effective January 1, 2018, pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Certificates to a winning bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC"). In the event that a Privately Held Bidder's bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the City's conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the City to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (City of Bellmead, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Bellmead CO2018 – Bid Form) and description of the goods or services (Purchase of the City of Bellmead, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the City. The executed

Disclosure Form must be sent by email to the City's financial advisor at mmcliney@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Clay Binford, c/o Norton Rose Fulbright US LLP, 300 Convent Street, Suite 2100, San Antonio, Texas 78205, along with a PDF executed version sent to clayton.binford@nortonrosefulbright.com.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made "under penalty of perjury." Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder's obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE: To the extent the sale of Certificates that is the subject of this Notice of Sale is a contract for goods or services within the meaning of Section 2270.002 of the Texas Government Code, each Bidder, through submittal of an executed Official Bid Form, hereby verifies that it is a company which does not boycott Israel and will not boycott Israel through the term of this Agreement. The foregoing verification is made solely to comply with Section 2270.002, Texas Government Code, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, "company" and "boycott Israel" have the meanings ascribed to such terms by Chapter 808 of the Texas Government Code.

Pursuant to Subchapter F, Chapter 2252, Texas Government Code, to the extent applicable to the sale of Certificates that is the subject of this Notice of Sale, each Bidder, through submittal of an executed Official Bid Form, represents that it is not a company (as defined in Section 2270.0001(2), Texas Government Code) which is on a list prepared and maintained by the Comptroller of Public Accounts of the State of Texas under Sections 2270.0201 or 2252.153, Texas Government Code. The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such section does not contravene applicable Federal law and excludes the Bidder and each of its affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

OFFICIAL STATEMENT

To assist the Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC"), the City and the Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

COMPLIANCE WITH RULE: The City has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Certificates, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the City deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Purchaser shall be responsible for promptly informing the City of the initial offering yields of the Certificates.

The City agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The City consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules.

The City will complete and authorize distribution of the Official Statement identifying the Purchaser and containing information omitted from the Preliminary Official Statement. The City does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Purchaser on or after the sale date, the City intends the same to be final as of such date, within the meaning of Section 15c2-12(b)(3) of the Rule. Notwithstanding the foregoing, the City makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates.

FINAL OFFICIAL STATEMENT: In addition to delivering the Official Statement in a “designated electronic format”, the City will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Certificates, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 50 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Certificates. The Purchaser will be responsible for providing information concerning the City and the Certificates to subsequent purchasers of the Certificates, and the City will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The City agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a “designated electronic format” (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the MSRB. The City consents to the distribution of such documents in a “designated electronic format”. Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The City's obligation to supplement the Official Statement to correct key representations determined to be materially misleading, after the date of the Official Statement, shall terminate upon initial delivery of the Certificates to the Purchaser, unless the Purchaser notifies, in writing, the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the obligation will extend for an additional period of time (but not more than 90 days after the sale date) until all of the Certificates have been sold to ultimate customers.

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Official Statement, the City learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Purchaser of any adverse event which causes the Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Certificates, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - CONDITIONS TO DELIVERY", the City will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Purchaser and in a “designated electronic format”; provided, however, that the obligation of the City to do so will terminate when the City delivers the Certificates to the Purchaser, unless the Purchaser notifies the City on or before such date that less than all of the Certificates have been sold to ultimate customers, in which case the City's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the City delivers the Certificates) until all of the Certificates have been sold to ultimate customers.

CERTIFICATION OF THE OFFICIAL STATEMENT: At the time of payment for and delivery of the hereinafter defined Initial Certificates (the “Delivery Date”), the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefore, and on the date of the initial delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last financial statements of the City appearing in the Official Statement. The Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Certificates will be authorized, ratified and approved by the City Council of the City on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the City.

CONTINUING DISCLOSURE AGREEMENT: The City will agree in the Ordinance to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS: During the past five years, the City has complied in all material respects with all continuing disclosure agreements made in accordance with the Rule.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL CERTIFICATES: The initial delivery of the Certificates to the Purchaser on the “Delivery Date”, will be accomplished by the issuance of either (i) a single fully registered Certificate in the total principal amount of \$2,000,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Certificate for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the “Initial Certificate(s)”), signed by manual or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Certificates will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Certificate(s), they shall be immediately canceled and one Certificate for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC’s Book-Entry-Only System. Payment for the Initial Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six (6) business days’ notice of the time fixed for delivery of the Certificates. It is anticipated that Initial Delivery of the Initial Certificates can be made on or about September 5, 2018, but if for any reason the City is unable to make delivery by September 5, 2018, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Certificates. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the City and the

Purchaser shall be relieved of further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

EXCHANGE OF INITIAL CERTIFICATES FOR DEFINITIVE CERTIFICATES: Upon payment for the Initial Certificate at the time of such delivery, the Initial Certificate are to be canceled by the Paying Agent/Registrar and registered definitive Certificates delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Certificates shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Certificate, final written instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying Agent/Registrar will not be required to accept changes in such written instructions after the five day period, and if such written instructions are not received by the Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Certificate and delivery of registered definitive Certificates may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Certificates, but neither the failure to print such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Certificates shall be paid by the City; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Purchaser.

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Certificates is subject to the following conditions: the issuance of an approving opinion of the Attorney General of Texas, the Purchaser's acknowledgment of the receipt of the Initial Certificate, the Purchaser's receipt of the legal opinions of Bond Counsel and the no-litigation certificate, and the non-occurrence of the events described below under the caption "No Material Adverse Change", all as described below. In addition, if the City fails to comply with its obligations described under "FINAL OFFICIAL STATEMENT" above, the Purchaser may terminate its contract to purchase the Certificates by delivering written notice to the City within five (5) days thereafter.

NO MATERIAL ADVERSE CHANGE: The obligation of the Purchaser to take up and pay for the Certificates, and of the City to deliver the Initial Certificate(s), are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Certificate(s), there shall have been no material adverse change in the affairs of the City subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

LEGAL OPINIONS: The Certificates are offered when, as and if issued, subject to the approval of certain legal matters by the Attorney General of the State of Texas and Bond Counsel (see discussion "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" in the Preliminary Official Statement).

CHANGE IN TAX-EXEMPT STATUS: At any time before the Certificates are tendered for initial delivery to the Purchaser, the Purchaser may withdraw its bid if the interest on obligations such as the Certificates shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by U.S. Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

QUALIFIED TAX-EXEMPT OBLIGATIONS: The City will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see discussion under "TAX MATTERS – Qualified Tax-Exempt Obligations" in the Preliminary Official Statement).

GENERAL CONSIDERATIONS

FUTURE REGISTRATION: The Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. 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 (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and interest rate as the Certificates surrendered for exchange or transfer.

RECORD DATE: The record date ("Record Date") for determining the party to whom the semiannual interest on the Certificates is payable on any interest payment date is the fifteenth day of the month next preceding such interest payment date.

RATING: A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Rating" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the

rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

FUTURE BOND ISSUES: The City anticipates being a participant in the financing of the “Bellmead Multi-Purpose Venue” (the “Project”) as authorized and approved by the voters of the City at a venue project election held in the City on May 5, 2018 (the “Election”). The participants in the Project are in the process of negotiating the terms and timing of the Project, including negotiations with a professional baseball team. As of the date of this Official Statement, it is anticipated that a one-quarter percent (1/4%) sales tax (the “4B Tax”) levied in the City and collected by the Bellmead Economic Development Corporation (the “EDC”) will be the security pledged for the issuance of obligations in the approximate amount of \$4,000,000 in calendar year 2019. (See APPENDIX A – Table 14 for a description of the EDC and the collection of the 4B Tax.) As authorized at the Election, the City is additionally authorized to levy and collect a hotel occupancy tax (“HOT”) in the City and pledge such HOT to the repayment of obligations issued to finance the Project, or to use the proceeds of the HOT to maintain and operate the Project. However, as of the date of this Official Statement, the City does not anticipate issuing obligations secured by the HOT to finance the Project. Other than the potential issuance of obligations secured by either sales tax revenues or HOT revenue as described above in calendar year 2019, the City does not anticipate issuing additional obligations secured by ad valorem taxes or net revenues of the City’s combined utility system in the next twelve months, except potentially refunding bonds for debt service savings.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE: No registration statement relating to the Certificates has been filed with the SEC under the Securities Act of 1933, as amended (the “Act”), in reliance upon exemptions provided in such Act. The Certificates have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Certificates been registered or qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for registration or 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 registration or qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser’s written request and expense and within reasonable limits, in registering or qualifying the Certificates, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but will in no instance execute a general consent to service of process in any state that the Certificates are offered for sale.

ADDITIONAL COPIES: Subject to the limitations described herein, an electronic copy of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from www.samco.postos.com.

The City Council has approved the form and content of the Official Notice of Sale, the Official Bid Form, and the Official Statement and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the Certificates will, in the Ordinance authorizing the issuance of the Certificates, reconfirm its approval of the form and content of the Official Statement, and any addenda, supplement, or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

/s/ William B. Ridings
Mayor,
City of Bellmead

ATTEST:

/s/ Patricia Ervin
Interim City Secretary,
City of Bellmead

August 7, 2018

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CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY
CERTIFICATION OF FILING**

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

City of Bellmead, Texas

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.

Contract Number: Bellmead CO2018 - Bid Form

Purchase of the City of Bellmead, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018

| 4 | Name of Interested Party | City, State, Country (place of business) | Nature of interest (check applicable) | |
|---|--------------------------|--|---------------------------------------|--------------|
| | | | Controlling | Intermediary |
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5 Check only if there is NO Interested Party.

6 UNSWORN DECLARATION

My name is _____, and my date of birth is _____.

My address is _____, _____, _____, _____, _____.
(street) (city) (state) (zip code) (country)

I declare under penalty of perjury that the foregoing is true and correct.

Executed in _____ County, State of _____, on the ____ day of _____, 20____.
(month) (year)

Signature of authorized agent of contracting business entity
(Declarant)

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OFFICIAL BID FORM

Honorable Mayor and City Council
 City of Bellmead
 3015 Bellmead Drive
 Bellmead, Texas 76705

August 14, 2018

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated August 7, 2018, which terms are incorporated by reference to this proposal (and which are hereto agreed as evidenced by on submission of this bid), we hereby submit the following bid for \$2,000,000 (preliminary, subject to change) City of Bellmead, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018, dated August 1, 2018 (the "Certificates").

For said legally issued Certificates, we will pay you \$_____ (being a price of no less than 103% and no more than 108% of par value) plus accrued interest from their date to the date of delivery to us for Certificates maturing March 1 and bearing interest per annum as follows:

| Year of Stated Maturity | Principal Amount at Stated Maturity | Coupon % | Year of Stated Maturity | Principal Amount at Stated Maturity | Coupon % |
|-------------------------|-------------------------------------|----------|-------------------------|-------------------------------------|----------|
| 2019 | \$ 60,000 | | 2029* | \$ 100,000 | |
| 2020 | 70,000 | | 2030* | 105,000 | |
| 2021 | 70,000 | | 2031* | 110,000 | |
| 2022 | 75,000 | | 2032* | 115,000 | |
| 2023 | 75,000 | | 2033* | 115,000 | |
| 2024 | 80,000 | | 2034* | 120,000 | |
| 2025 | 85,000 | | 2035* | 130,000 | |
| 2026 | 85,000 | | 2036* | 135,000 | |
| 2027 | 90,000 | | 2037* | 140,000 | |
| 2028 | 95,000 | | 2038* | 145,000 | |

**Maturities available for term certificates.*

Our calculation (which is not part of this bid) of the True Interest Cost from the above is: _____%

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: As a condition to our submittal of this bid for the Certificates, we acknowledge the following: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$2,000,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

Of the principal maturities set forth in the table above, we have created term certificates (the "Term Certificates") as indicated in the following table (which may include no more than two Term Certificates). For those years which have been combined into a Term Certificate, the principal amount shown in the table shown on page ii of the Official Notice of Sale will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Certificate maturity date will mature in such year. The Term Certificates created are as follows:

| Term Certificate Maturity Date March 1 | Year of First Mandatory Redemption | Principal Amount of Term Certificate | Interest Rate |
|--|--|--|------------------|
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |

The Initial Certificate(s) shall be registered in the name of _____, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System.

Cashier's Check of the _____ Bank, _____, Texas, in the amount of \$40,000.00, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Certificates utilizing the Book-Entry-Only System through DTC and make payment for the Initial Certificate in immediately available funds at the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 10:00 A.M., Central Time, on Wednesday, September 5, 2018, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the purchaser of the Certificates to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidenced thereof, agrees to complete, execute, and deliver to the City, by the Delivery Date, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the City. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Federal law, it does not and will not "boycott Israel" and is not a company that engages in business with Iran, Sudan, or any "foreign terrorist organizations" and it is not on the Texas Comptroller's list concerning the same prepared and maintained thereby under applicable Texas law, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE".

For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Upon notification of conditional verbal acceptance, the undersigned will, if required by applicable Texas law as described in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTERESTED PARTY FORM", complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, and sent by email to the City's financial advisor at afriedman@samcocapital.com and Bond Counsel at clayton.binford@nortonrosefulbright.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the City from providing final written award of the enclosed bid.

By: _____
Authorized Representative

Telephone Number

Email Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Bellmead, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 14th day of August 2018.

Mayor,
City of Bellmead, Texas

ATTEST:

Interim City Secretary,
City of Bellmead

\$2,000,000*
CITY OF BELLMEAD, TEXAS
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2018

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of _____, _____, _____ (“_____”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Obligations”) of the City of Bellmead, Texas (the “Issuer”).

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by _____ are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Obligations used by _____ in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by _____ to purchase the Obligations.

(b) _____ was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by _____ constituted a firm offer to purchase the Obligations.

2. Defined Terms.

(a) *Maturity* means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is August 14, 2018.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents _____ interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Obligations.

By: _____
Name: _____
Title: _____

Dated: _____

*Preliminary, subject to change.

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SCHEDULE A
EXPECTED OFFERING PRICES

(this page intentionally left blank)

SCHEDULE B
COPY OF UNDERWRITER'S BID

(this page intentionally left blank)

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

NEW ISSUE - BOOK-ENTRY-ONLY

Rating: S&P: "Applied For"
(See: "OTHER PERTINENT INFORMATION-Rating", herein)

PRELIMINARY OFFICIAL STATEMENT
August 7, 2018

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

The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

\$2,000,000*

CITY OF BELLMEAD, TEXAS

(A political subdivision of the State of Texas located in McLennan County, Texas)

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: August 1, 2018

Due: March 1, as shown on page ii

The \$2,000,000* City of Bellmead, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City of Bellmead, Texas (the "City" or "Issuer") on August 14, 2018, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

Interest on the Certificates will accrue from August 1, 2018 (the "Dated Date") as shown above and will be payable on March 1 and September 1 of each year, commencing March 1, 2019, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) acquiring, purchasing, and equipping the Issuer's two fire trucks and any additional public safety equipment necessary thereto; (2) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (3) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinion and No-Litigation Certificate" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about September 5, 2018.

* Preliminary, subject to change

BIDS DUE AUGUST 14, 2018 BY 12:00 P.M. (NOON) CENTRAL TIME

\$2,000,000*
CITY OF BELLMEAD, TEXAS
(A political subdivision of the State of Texas located in McLennan County, Texas)

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

MATURITY SCHEDULE*
(Due March 1)
Base CUSIP - 079635 ^(a)

| <u>Stated Maturity March 1</u> | <u>Principal Amount</u> | <u>Interest Rate (%)</u> | <u>Initial Yield (%)</u> | <u>CUSIP Suffix^(a)</u> |
|--|-----------------------------|----------------------------------|----------------------------------|---------------------------------------|
| 2019 | \$ 60,000 | | | |
| 2020 | 70,000 | | | |
| 2021 | 70,000 | | | |
| 2022 | 75,000 | | | |
| 2023 | 75,000 | | | |
| 2024 | 80,000 | | | |
| 2025 | 85,000 | | | |
| 2026 | 85,000 | | | |
| 2027 | 90,000 | | | |
| 2028 | 95,000 | | | |
| 2029 | 100,000 | | | |
| 2030 | 105,000 | | | |
| 2031 | 110,000 | | | |
| 2032 | 115,000 | | | |
| 2033 | 115,000 | | | |
| 2034 | 120,000 | | | |
| 2035 | 130,000 | | | |
| 2036 | 135,000 | | | |
| 2037 | 140,000 | | | |
| 2038 | 145,000 | | | |

(Interest to accrue from the Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after March 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on March 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Purchaser may select certain maturities of the Certificates to be grouped together as a term certificate (the "Term Certificates") and such Term Certificates would be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

^(a) CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

* Preliminary, subject to change

**CITY OF BELLMEAD, TEXAS
3015 Bellmead Drive
Bellmead, Texas 76705
254 799-2436 – Phone
254-799-5969 - Facsimile**

ELECTED OFFICIALS

| <u>Name</u> | <u>Position</u> | <u>On Council Since May</u> | <u>Term Expires May</u> | <u>Occupation</u> |
|--------------------|-----------------|-----------------------------|-------------------------|----------------------------|
| William B. Ridings | Mayor | 2016 | 2020 | Retired |
| Dr. Alfreda Love | Mayor Pro Tem | 2015 | 2019 | Professor |
| Travis Gibson | Council Member | 2015 | 2019 | School Administrator |
| Mark Pace | Council Member | 2016 | 2020 | Salesman |
| Doss Youngblood | Council Member | 2013 | 2019 | Retired |
| Gary Moore | Member At Large | 2012 | 2020 | Appliance Delivery Service |

ADMINISTRATION

| <u>Name</u> | <u>Position</u> | <u>Years With the City</u> | <u>Years of Municipal Experience</u> |
|---------------------|------------------------|----------------------------|--------------------------------------|
| Everett “Bo” Thomas | City Manager | 6 years | 30 years |
| Victor Salas | Asst. City Manager/CFO | 6 years | 31 years |
| Patricia Ervin | Interim City Secretary | 2 years | 42 years |
| Charles Buenger | City Attorney | 6 years | 44 years |
| Lydia Alvarado | Police Chief | 7 years | 26 years |
| Bill Hlavenka | Fire Chief | 26 years | 26 years |

CONSULTANTS AND ADVISORS

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

Certified Public AccountantsPatillo, Brown & Hill, L.L.P.
Waco, Texas

Financial AdvisorSAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), and in effect on the date of this Preliminary Official Statement, this document constitutes an "official statement" of the Issuer with respect to the Certificates that has been "deemed final" by the Issuer as of its date except for the omission of no more than the information permitted by the Rule.

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

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

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

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

| | |
|--|---|
| The Issuer | The City of Bellmead, Texas (the "City" or "Issuer") is located three miles to the northeast of Waco on U.S. Highway 84. The 2010 census population was 9,901, increasing 7.46% since 2000. The current population estimate is 10,503. The City operates under a Mayor/City Council form of government pursuant to the laws of the State of Texas and the City's Home Rule Charter. (See "APPENDIX B - General Information Regarding the City of Bellmead and McLennan County, Texas" herein.) |
| The Certificates | The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City, on August 14, 2018 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.) |
| Paying Agent/Registrar | The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. |
| Security | The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer (all such terms as defined in the Ordinance). The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.) |
| Redemption Provisions of the Certificates | The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after March 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Purchaser may select certain maturities of the Certificates to be grouped together as a term certificate (the "Term Certificates") and such Term Certificates would be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.) |
| Tax Matters | In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS", including the alternative tax on corporations. (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.) |
| Qualified Tax-Exempt Obligations | The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.) |
| Use of Certificate Proceeds | Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) acquiring, purchasing, and equipping the Issuer's two fire trucks and any additional public safety equipment necessary thereto; (2) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (3) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.) |

| | |
|---------------------------|---|
| Rating | A municipal bond rating application has been made to S&P Global Ratings, (“S&P”). Currently, the City has an underlying, unenhanced rating on its general obligation debt from S&P of “AA-”. The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Rating" herein.) |
| Payment Record | The Issuer has never defaulted on the payment of its bonded indebtedness. |
| Future Bond Issues | The City anticipates being a participant in the financing of the “Bellmead Multi-Purpose Venue” (the “Project”) as authorized and approved by the voters of the City at a venue project election held in the City on May 5, 2018 (the “Election”). The participants in the Project are in the process of negotiating the terms and timing of the Project, including negotiations with a professional baseball team. As of the date of this Official Statement, it is anticipated that a one-quarter percent (1/4%) sales tax (the “4B Tax”) levied in the City and collected by the Bellmead Economic Development Corporation (the “EDC”) will be the security pledged for the issuance of obligations in the approximate amount of \$4,000,000 in calendar year 2019. (See APPENDIX A – Table 14 for a description of the EDC and the collection of the 4B Tax.) As authorized at the Election, the City is additionally authorized to levy and collect a hotel occupancy tax (“HOT”) in the City and pledge such HOT to the repayment of obligations issued to finance the Project, or to use the proceeds of the HOT to maintain and operate the Project. However, as of the date of this Official Statement, the City does not anticipate issuing obligations secured by the HOT to finance the Project. Other than the potential issuance of obligations secured by either sales tax revenues or HOT revenue as described above in calendar year 2019, the City does not anticipate issuing additional obligations secured by ad valorem taxes or net revenues of the City’s combined utility system in the next twelve months, except potentially refunding bonds for debt service savings. |
| Delivery | When issued, anticipated on or about September 5, 2018. |
| Legality | Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. |

(The remainder of this page intentionally left blank.)

PRELIMINARY OFFICIAL STATEMENT

relating to

\$2,000,000*

CITY OF BELLMEAD, TEXAS

(A political subdivision of the State of Texas located in McLennan, Texas)

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Bellmead, Texas (the "City" or the "Issuer") of its \$2,000,000* Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") identified on the cover page.

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

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

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

THE CERTIFICATES

General Description of the Certificates

The Certificates will be dated August 1, 2018 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page ii of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on March 1 and September 1 of each year, commencing March 1, 2019, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on August 14, 2018, and the City's Home Rule Charter.

**Preliminary, subject to change.*

Security for Payment

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

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

Even though the City has pledged the Pledged Revenues of the System to further secure the Certificates, the City does not expect that any Net Revenues from such System will actually be utilized to pay the debt service requirements on the Certificates.

Redemption Provisions of the Certificates

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after March 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on March 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Two or more consecutive maturities of the Certificates may be grouped together as a term certificate by the Purchaser and such term certificates would be subject to mandatory sinking fund redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

Notice of Redemption

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

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

Certificates of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any Certificate to be partially redeemed must be surrendered in exchange for one or more new Certificates of the same stated maturity and interest rate for the unredeemed portion of the principal.

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

Selection of Certificates to be Redeemed

The Certificates of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice or such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) acquiring, purchasing, and equipping the Issuer's two fire trucks and any additional public safety equipment necessary thereto; (2) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (3) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects.

Sources and Uses

| | |
|---|----------|
| Sources | |
| Par Amount of the Certificates | \$ _____ |
| Accrued Interest on the Certificates | _____ |
| [Net] Original Issue Reoffering Premium | _____ |
| Total Sources of Funds | _____ |
| Uses | |
| Project Fund Deposit | \$ _____ |
| Purchaser's Discount | _____ |
| Certificate Fund Deposit | _____ |
| Costs of Issuance | _____ |
| Total Uses | _____ |

Payment Record

The Issuer has never defaulted on the payment of its bonded indebtedness.

Amendments

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

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City, moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct,

noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. City officials are authorized to restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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

Default and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality. In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the *Wasson* opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code. If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically

recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principals of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

Record Date

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

Special Record Date for Interest Payment

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

Future Registration

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

Limitation on Transfer of Certificates

Neither the Issuer nor the Paying Agent/Registrar shall be required (1) to issue, transfer, or exchange any Certificate called for redemption, in whole or in part during a period beginning at the opening of business fifteen (15) days before the day of the first mailing of a notice of redemption of Certificates hereunder and ending at the close of business on the day of such mailing or (2) thereafter to transfer or exchange in whole or in part any Certificate so selected for redemption; provided, however, such limitation is not applicable to the transfer or exchange of the unredeemed balance of a Certificate called for redemption in part.

Replacement Certificates

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE SYSTEM

Water System

Presently, the City obtains its water from five (5) deep artesian wells. The wells draw water from the Trinity Sands aquifer. The capacity of the wells range from 430 to 700 gallons per minutes ("GPM"). The total pumping capacity, as of May 31, 2018, is 3.83 million gallons daily ("MGD"). The City currently possesses 1,477 acre-feet of ground water rights annually through the Southern Trinity Groundwater

Conservation District. The City, through an inter-local agreement with the City of Waco, has a reserve water connection with the City of Waco's water system as a contingency to purchase water in the event of emergency or mechanical failures with the City water system.

The City water system has four (4) elevated water storage towers. Together, the four water towers total 950,000 gallons of elevated storage. There are seven (7) ground storage tanks with a total capacity of 3,904,000 gallons of ground storage.

The water is distributed and metered throughout the system through approximately 315,000 feet of pipe. The sizes of pipes used throughout the system range from ¾" to 12" in diameter. Meter sizes range from ¾" to 6". As of May 31, 2018, the City had 3,495 service connections.

Water rates for residential are presently \$17.00 for the first 2,000 gallons and \$3.50 per thousand gallons thereafter. Water rates for commercial customers are presently \$17.00 for the first 2,000 gallons and \$3.68 per thousand gallons thereafter. Customers outside the City limits are charged \$17.00 for the first 2,000 gallons and \$5.20 per 1,000 gallons above 2,000 gallons.

Wastewater System

The City is one of eight local member cities of the Waco Metropolitan Area Regional Sewer System ("WMARSS"). All member cities participate on a cost sharing basis to fund the operations and maintenance, as well as capital improvement needs, of the WMARSS. The City currently has a 5.707% interest in the system. The City of Waco is a member of WMARSS and is responsible for the operations and maintenance of the system. The system is subject to joint administration of the system through the WMARSS Board. The Board consists of the City Managers from each of the eight participating cities.

The City is currently served by approximately 230,000 feet of sewer pipe. Wastewater pipes, within the City limits, range in size from 4" to 30" in diameter. The lower elevation areas within the City, are served by 12 lift stations. All wastewater collected within the City is metered and sent to the WMARSS treatment plant in the City of Waco.

Residential wastewater rates are \$9.50 for the first 1,000 gallons and \$2.00 for each additional 1,000 gallons up to a maximum of \$21.00. Commercial wastewater rates are the same as residential rates except that there is no maximum on the amount charged.

INVESTMENT POLICIES

The Issuer invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the Issuer. The City Manager and Director of Finance / Chief Financial Officer are designated as investment officers for the City. Both State law and the Issuer's investment policies are subject to change.

Legal Investment

Under State law, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Issuer deposits, or (ii) certificates of deposit where (a) the funds are invested by the Issuer through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Issuer as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Issuer, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Issuer appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the Issuer with respect to the certificates of deposit issued for the account of the Issuer; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the

State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Issuer with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

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

Investment Policies

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

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

Additional Provisions

Under State law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said order or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Issuer; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service

and to no more than 15% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer.

Current Investments

As of May 31, 2018 (unaudited), the City held investments as follows:

| <u>Investment Type</u> | <u>Amount</u> | <u>Percentage</u> |
|--------------------------|----------------------|-------------------|
| Depository Bank Accounts | \$ 8,694,902 | 37.91% |
| Certificates of Deposit | 14,051,332 | 61.27% |
| Investment Pool Accounts | <u>187,517</u> | <u>0.82%</u> |
| Total | <u>\$ 22,933,751</u> | <u>100.00%</u> |

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

EMPLOYEE BENEFIT 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 agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.org.

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

Beginning in 1998, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1998, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

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

| | |
|-----------------------------------|--|
| Employee deposit rate | 6% |
| Matching ratio (city to employee) | 2 to 1 |
| Years required for vesting | 5 years |
| Service retirement eligibility | 25 years to any age, 5 years at age 60 and above |
| Updated Service Credit | 100% Repeating |
| Annuity Increase (to retirees) | 70% of CPI Repeating |

The City does participate in Social Security.

Discount Rate

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

Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|-----------------------------------|---------------------------------------|---------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
| Balance at 12/31/2015 | \$12,060,237 | \$11,297,782 | \$762,455 |
| Changes for the year: | | | |
| Service Cost | 487,147 | - | 487,147 |
| Interest | 809,001 | - | 809,001 |
| Difference between expected and actual experience | (233,707) | - | (233,707) |
| Contributions - employer | - | 310,177 | (310,177) |
| Contributions – employee | - | 206,710 | (206,710) |
| Net Investment Income | - | 763,497 | (763,497) |
| Benefit payments, including refunds of employee contributions | (637,232) | (637,232) | - |
| Administrative expense | - | (8,623) | 8,623 |
| Other Changes | - | (465) | 465 |
| Net Changes | 425,209 | 634,064 | (208,855) |
| Balance at 12/31/2016 | \$12,485,446 | \$11,931,846 | \$553,600 |

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

| | 1% Decrease in Discount Rate (5.75%) | Current Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|--|-------------------------------------|--|
| City's net pension liability | \$ 2,408,246 | \$ 553,600 | (\$ 947,762) |

See "APPENDIX D – Audited Financial Statements – Note 9 Employee Benefit Plan."

Pension Plan Fiduciary Net Position

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

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 \$387,264. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between expected and actual economic experience | \$ 16,028 | \$ 480,089 |
| Changes in actuarial assumptions | 53,725 | - |
| Difference between projected and actual investment earnings | 518,471 | - |
| Contributions subsequent to the measurement date | 241,232 | - |
| Total | \$829,456 | \$ 480,089 |

\$241,232 reported as deferred outflows of resources related to pension 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 of resources related to pensions will be recognized in pension expenses as follows:

| Year Ended September 30, | |
|-----------------------------|-----------|
| 2018 | \$ 51,337 |
| 2019 | 43,910 |
| 2020 | 41,316 |
| 2021 | (28,428) |

Other Post-Employment Benefits

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

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

The City’s contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$7,040, \$6,844, and \$6,676, respectively, which equaled the required contributions each year.

See “APPENDIX D – Audited Financial Statements – Note 10 Other Post-Employment Benefits.”

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Tax Code ") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district and an appraisal review board responsible for appraising property for all taxing units within the county. The McLennan County Appraisal District (the "Appraisal District") is responsible for appraising property within the City generally as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the McLennan County Review Board (the “Appraisal Review Board”) which is appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the Issuer in establishing its tax roll and tax rate.

Property Subject to Taxation by the Issuer

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

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

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person’s spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person’s surviving spouse if the spouse is fifty-five years of age or older at the time of the person’s death. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person’s homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and

the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse.

Valuation of Property for Taxation

Generally, property in the City must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the Issuer in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

Article VIII of the Texas Constitution and the Tax Code permits land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at the lesser of its value based on the land's capacity to produce agricultural or timber products or its market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Issuer can collect taxes based on the new value, including three (3) years for agricultural use and five (5) years for agricultural open space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and 1-d-1.

Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. The Issuer, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the City or an estimate of any new property or improvements within the City. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the City, it cannot be used for establishing a tax rate within the City until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemptions

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

1. An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision.
2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000.

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

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

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

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

has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

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

Freeport Goods and Goods-In-Transit Exemption

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, 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. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires that the governmental entities take affirmative action after October 1 of the prior year but prior to January 1 of the first tax year in which the City proposes to continue its taxation of goods-in-transit in the 2012 tax year and beyond.

Pollution Control

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

Tax Investment Financing/Tax Abatement/Economic Development Program

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

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

Economic Development Programs of Grants and Loans: 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 grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

Issuer and Taxpayer Remedies

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

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

The Financial Institutions Act of 1989

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

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

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

Levy and Collection of Taxes

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the taxing unit or as soon thereafter as practicable, the rate of taxation is set by the Issuer based upon the valuation of property within the City as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the Issuer. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

Issuer's Rights in the Event of Tax Delinquencies

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

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

CITY APPLICATION OF THE PROPERTY TAX CODE

The City grants an exemption of \$7,500 of residence homesteads of persons 65 or older and the disabled. See Appendix A – Table 9, Page A-4 for a listing of the amounts of these exemptions.

The City does not grant an exemption of 20% of the market value of all residence homesteads, with a minimum exemption of \$5,000.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

The City does not tax non-business personal property.

The City has contracted with the McLennan County Tax Assessor/Collector for the collection of the City's property taxes.

McLennan County does not permit split payments or discounts.

The City does grant the Article VIII, Section 1-j ("freeport property") exemption.

The City does not grant an exemption for "goods-in-transit". The City has not taken official action to continue to tax goods-in-transit for 2012 and beyond.

The City does not participate in a Tax Increment Reinvestment Zone.

The City has no abatement agreements.

The City has not made any loans or grants under Chapter 380, Texas Local Government Code.

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

The City has adopted the provisions of Chapter 34 of the Tax Code, as amended, which provides for the maximum levy of a one percent sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of the Certificates or other indebtedness. Net collections on a fiscal year basis are shown in Table 14 of APPENDIX A – Financial Information Relating to the City of Bellmead, Texas.

Optional Sales Tax

The Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further the Tax Code provides certain cities the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election.

At an election held on March 26, 1980, the registered voters of the City approved an additional one-half percent (1/2%) sales tax to be collected for economic development purposes in accordance with Chapters 501, 502 and 504, Texas Local Government Code, as amended (formerly Section 4A of Article 5190.6, Texas Revised Civil Statutes). Levy of this sales tax began on October 1, 1992.

At an election held on November 6, 2007, registered voters of the City voted to reduce the one-half percent (1/2%) additional sales tax for economic development to one-quarter percent (1/4%) and approved an additional one-quarter percent (1/4%) additional sales tax for street maintenance and improvements. Levy of these additional sales taxes began in July 1, 2010.

At an election held on May 8, 2010, the registered voters of the City voted to dissolve the 4A Economic Development Corporation and approved an additional one-quarter percent (1/4%) sales tax to be collected for community development purposes in accordance with Chapters 501, 502 and 505, Texas Local Government Code, as amended (formerly Section 4B of Article 5190.6, Texas Revised Civil Statutes). Levy of this community development sales tax began on October 1, 2010. (See Appendix A – Table 14 for historical sales tax collections and information, concerning the anticipated issuance of obligations secured by sales tax to finance the construction of the Bellmead Multi-purpose Venue Project.)

The City has not held an election regarding an additional sales tax for reduction of property tax reduction.

The Commissioners Court of McLennan County levies and assesses the remaining 1/2% additional sales and use tax for ad valorem property tax reduction.

TAX RATE LIMITATIONS

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population: \$2.50 per \$100 assessed valuation. The Issuer has adopted a Home Rule Charter which does not limit the City's maximum tax rate limit beyond the Constitutional limit of \$2.50 per \$100 of assessed valuation for all Issuer purposes.

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

The Tax Code

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

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

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

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

TAX MATTERS

Tax Exemption

The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel’s opinion is reproduced as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

For taxable years that began before January 1, 2018, interest on the Certificates owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (“FASIT”). The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

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

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer,” and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax Exempt Obligations for Financial Institutions” herein), life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to certificateholders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value

and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Certificates

The initial public offering price of certain Certificates (the “Discount Certificates”) may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum tax on corporations for taxable years that began before January 1, 2018, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax Exempt Obligations for Financial Institutions” herein), life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

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

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the Registered Owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to timely file with the MSRB updated financial information and operating data of the City that is included in this Official Statement, that is customarily prepared by the City, and that is publicly available, as well as notice of specified events. The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at www.emma.msrb.org.

Annual Reports

Under Texas law, including, but not limited to Chapter 103, as amended, Texas Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 180 days after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any certificate holder or other member of the public within a reasonable time of request to the Interim City Secretary, 3015 Bellmead Drive, Bellmead, Texas 76705, and upon payment of charges prescribed by the Texas General Services Commission.

The City will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in APPENDIX A Tables 1, 3, 9, 10, 11, 12, 18, 19, 20 and 22 and APPENDIX D to this Official Statement. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2018.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available.

Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D 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'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 file notice of the change with the MSRB through EMMA.

Notice of Certain Events

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

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

Availability of Information

The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of material 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 agreement or from any statement made pursuant to its agreement, although holders or registered owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

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

Compliance with Prior Undertakings

During the past five years, the City has complied in all material respects with all previous agreements in accordance with SEC Rule 15c2-12.

LEGAL MATTERS

Legal Opinion

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

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

Rating

A municipal bond rating application have been made to S&P Global Ratings (“S&P”). The Issuer currently has an S&P underlying rating of “AA-” on its general obligation debt. An explanation of the significance of such rating may be obtained from the rating agency. An explanation of the significance of such rating may be obtained from the rating agency. A rating by a rating agency reflects only the view of such company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that such a rating will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Authenticity of Financial Information

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

Financial Advisor

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

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the “Purchaser” or the “Initial Purchaser”) to purchase the Certificates at the interest rates shown on the page ii of this Official Statement at a price of par, plus a [net] original issue reoffering premium of \$_____, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The Purchaser's compensation is \$_____. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2017, the date of the last financial statements of the City appearing in the Official Statement.

Information from External Sources

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

Concluding Statement

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

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

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

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

CITY OF BELLMEAD, TEXAS

/s/

Mayor
City of Bellmead, Texas

ATTEST:

/s/

Interim City Secretary
City of Bellmead, Texas

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APPENDIX A

FINANCIAL INFORMATION RELATING TO THE CITY OF BELLMEAD, TEXAS

(This appendix contains quantitative financial information and operating data with respect to the Issuer. The information is only a partial representation and does not purport to be complete. For further and more complete information, reference should be made to the original documents, which can be obtained from various sources, as noted.)

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

| | | |
|---|--------------|-----------------------|
| 2018 Actual Market Value of Taxable Property (100% of Actual) | | \$ 553,633,547 |
| Less Exemptions: | | |
| Local, Optional Over-65 and/or Disabled Homestead Exemptions | \$ 4,596,997 | |
| Disabled and Deceased Veterans' Exemptions | 7,456,278 | |
| Productivity Value Loss | 2,271,120 | |
| 10% Cap Loss | 11,546,553 | |
| Pollution Control | 55,512 | |
| Charitable / Other | 45,630 | |
| Partially Exempt Property | 22,341 | |
| Totally Exempt Property | 71,090,280 | <u>97,084,711</u> |
| 2018 Net Taxable Assessed Valuation ^(a) | | <u>\$ 456,548,836</u> |

^(a) See "AD VALOREM TAX PROCEDURES" and "CITY APPLICATION OF THE PROPERTY TAX CODE " in the Official Statement for a description of the Issuer's taxation procedures.
 Source: McLennan County Appraisal District

GENERAL OBLIGATION BONDED DEBT

TABLE 2

| | | |
|---|----|------------------------|
| General Obligation Debt Principal Outstanding: (As of June 1, 2018) | | |
| Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 | | \$ 7,590,000 |
| Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016 | | <u>2,210,000</u> |
| | | 9,800,000 |
| Current Issues General Obligation Debt Principal | | |
| Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") | | <u>2,000,000</u> * |
| Total Gross General Obligation Debt Principal Outstanding (Following the Issuance of the Certificates) | | <u>\$ 11,800,000</u> * |
| Less: Self-Supporting General Obligation Debt Principal: | | |
| Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 (approx. 55.73% UF) | | \$ 4,230,000 |
| Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016 (approx. 100% UF) | | <u>2,210,000</u> |
| Total Self-Supporting General Obligation Debt Principal Outstanding: | | 6,440,000 * |
| Total Net General Obligation Debt Principal Outstanding (Following the Issuance of the Certificates) | | <u>\$ 5,360,000</u> * |
| General Obligation Interest and Sinking Fund Balance as of May 31, 2018 (Unaudited) | | \$ 315,398 |
| Ratio of Gross General Obligation Debt Principal to 2018 Net Taxable Assessed Valuation | | 2.58% * |
| Ratio of Net General Obligation Debt Principal to 2018 Net Taxable Assessed Valuation | | 1.17% * |
| 2018 Net Taxable Assessed Valuation | | \$ 456,548,836 |
| Population: 1990 - 8,336; 2000 - 9,214; 2010 - 9,901; Current (Estimate) - | | 10,503 |
| Per Capita 2018 Net Taxable Assessed Valuation - | \$ | 43,468 |
| Per Capita Gross General Obligation Debt Principal - | \$ | 1,123 * |
| Per Capita Net General Obligation Debt Principal - | \$ | 510 * |

* Preliminary, subject to change.

OTHER OBLIGATIONS

TABLE 3

The City has no other debt obligations outstanding.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

| Fiscal Year Sept 30 | Currently Outstanding Debt Service | The Certificates* | | | Combined Total Debt Service* | Less Self-Supporting Debt Service* | Net Total Debt Service* |
|------------------------|--|------------------------|-------------------------|------------------------|------------------------------------|--|-------------------------------|
| | | Principal | Interest ^(a) | Total | | | |
| 2018 | \$ 792,893.75 | \$ - | \$ - | \$ - | \$ 792,893.75 | \$ 336,237.50 | \$ 456,656.25 |
| 2019 | 762,993.75 | 60,000.00 | 90,808.33 | 150,808.33 | 913,802.08 | 336,987.50 | 576,814.58 |
| 2020 | 763,193.75 | 70,000.00 | 80,962.50 | 150,962.50 | 914,156.25 | 337,637.50 | 576,518.75 |
| 2021 | 767,637.50 | 70,000.00 | 77,987.50 | 147,987.50 | 915,625.00 | 337,906.25 | 577,718.75 |
| 2022 | 766,312.50 | 75,000.00 | 74,906.25 | 149,906.25 | 916,218.75 | 337,787.50 | 578,431.25 |
| 2023 | 764,496.88 | 75,000.00 | 71,718.75 | 146,718.75 | 911,215.63 | 342,350.00 | 568,865.63 |
| 2024 | 766,862.50 | 80,000.00 | 68,425.00 | 148,425.00 | 915,287.50 | 341,437.50 | 573,850.00 |
| 2025 | 757,625.00 | 85,000.00 | 64,918.75 | 149,918.75 | 907,543.75 | 335,006.25 | 572,537.50 |
| 2026 | 766,875.00 | 85,000.00 | 61,306.25 | 146,306.25 | 913,181.25 | 338,131.25 | 575,050.00 |
| 2027 | 764,975.00 | 90,000.00 | 57,587.50 | 147,587.50 | 912,562.50 | 335,725.00 | 576,837.50 |
| 2028 | 766,975.00 | 95,000.00 | 53,656.25 | 148,656.25 | 915,631.25 | 337,775.00 | 577,856.25 |
| 2029 | 763,137.50 | 100,000.00 | 49,512.50 | 149,512.50 | 912,650.00 | 339,350.00 | 573,300.00 |
| 2030 | 768,050.00 | 105,000.00 | 45,156.25 | 150,156.25 | 918,206.25 | 340,262.50 | 577,943.75 |
| 2031 | 761,350.00 | 110,000.00 | 40,587.50 | 150,587.50 | 911,937.50 | 335,387.50 | 576,550.00 |
| 2032 | 768,237.50 | 115,000.00 | 35,806.25 | 150,806.25 | 919,043.75 | 339,800.00 | 579,243.75 |
| 2033 | 763,543.75 | 115,000.00 | 30,918.75 | 145,918.75 | 909,462.50 | 338,375.00 | 571,087.50 |
| 2034 | 762,331.25 | 120,000.00 | 25,925.00 | 145,925.00 | 908,256.25 | 336,187.50 | 572,068.75 |
| 2035 | 156,750.00 | 130,000.00 | 20,612.50 | 150,612.50 | 307,362.50 | - | 307,362.50 |
| 2036 | 152,250.00 | 135,000.00 | 14,981.25 | 149,981.25 | 302,231.25 | - | 302,231.25 |
| 2037 | - | 140,000.00 | 9,137.50 | 149,137.50 | 149,137.50 | - | 149,137.50 |
| 2038 | - | 145,000.00 | 3,081.25 | 148,081.25 | 148,081.25 | - | 148,081.25 |
| | <u>\$ 13,336,490.63</u> | <u>\$ 2,000,000.00</u> | <u>\$ 977,995.83</u> | <u>\$ 2,977,995.83</u> | <u>\$ 16,314,486.46</u> | <u>\$ 5,746,343.75</u> | <u>\$ 10,420,061.46</u> |

* Preliminary, subject to change.

^(a) Interest calculated at an assumed rate for illustration purposes only.

TAX ADEQUACY (Includes Self-Supporting Debt)

TABLE 5A

| | |
|---|----------------|
| 2018 Net Taxable Assessed Valuation | \$ 456,548,836 |
| Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-32*) | \$ 919,044 * |
| Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections | \$ 0.205411 * |

* Preliminary, subject to change.

Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

TAX ADEQUACY (Excludes Self-Supporting Debt)

TABLE 5B

| | |
|---|----------------|
| 2018 Net Taxable Assessed Valuation | \$ 456,548,836 |
| Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-32*) | \$ 579,244 * |
| Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections | \$ 0.129464 * |

* Preliminary, subject to change.

Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2009-2018

TABLE 6

| Year | Net Taxable Assessed Valuation | Change from Previous Year | |
|---------|-----------------------------------|---------------------------|---------|
| | | Amount (\$) | Percent |
| 2009-10 | \$ 327,880,106 | \$ 36,776,726 | 12.63% |
| 2010-11 | 328,311,013 | 430,907 | 0.13% |
| 2011-12 | 330,975,338 | 2,664,325 | 0.81% |
| 2012-13 | 337,473,605 | 6,498,267 | 1.96% |
| 2013-14 | 356,138,881 | 18,665,276 | 5.53% |
| 2014-15 | 365,397,502 | 9,258,621 | 2.60% |
| 2015-16 | 381,645,967 | 16,248,465 | 4.45% |
| 2016-17 | 407,683,002 | 26,037,035 | 6.82% |
| 2017-18 | 422,737,820 | 15,054,818 | 3.69% |
| 2018-19 | 456,548,836 | 33,811,016 | 8.00% |

Note: Assessed Valuations may change during the year due to various supplements and protests. Valuations in other tables of this Official Statement may not match those shown in this table.

Sources: Texas Comptroller of Public Accounts and McLennan County Appraisal District and the Issuer.

INTEREST AND SINKING FUND MANAGEMENT INDEX**TABLE 7**

| | |
|---|----------------------------------|
| Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2017 (Unaudited) | \$ 265,929 |
| 2017-18 Interest and Sinking (I&S) Fund Tax Levy of \$0.072349 at 98% Collections Produces ^(a) | <u>323,702</u> |
| Total Available for Debt Service | \$ 589,631 |
| Less: Net General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-18 | <u>300,656</u> |
| Estimated Surplus at Fiscal Year Ending 9-30-18 | <u>\$ 288,975</u> ^(a) |

^(a) Does not include delinquent tax collections, penalties and interest on delinquent tax collections or Investment earnings.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**TABLE 8**

(Includes the Certificates)

| Fiscal Year Ending 9/30 | Principal Repayment Schedule | | | Bonds Unpaid at End of Year* | Percent of Principal Retired (%)* |
|----------------------------|---|----------------------|----------------------|------------------------------------|---|
| | Outstanding Obligations ^(a) | The Certificates* | Total* | | |
| 2019 | \$ 485,000 | \$ 60,000 | \$ 545,000 | \$ 11,255,000 | 4.62% |
| 2020 | 495,000 | 70,000 | 565,000 | 10,690,000 | 9.41% |
| 2021 | 510,000 | 70,000 | 580,000 | 10,110,000 | 14.32% |
| 2022 | 520,000 | 75,000 | 595,000 | 9,515,000 | 19.36% |
| 2023 | 530,000 | 75,000 | 605,000 | 8,910,000 | 24.49% |
| 2024 | 545,000 | 80,000 | 625,000 | 8,285,000 | 29.79% |
| 2025 | 550,000 | 85,000 | 635,000 | 7,650,000 | 35.17% |
| 2026 | 575,000 | 85,000 | 660,000 | 6,990,000 | 40.76% |
| 2027 | 590,000 | 90,000 | 680,000 | 6,310,000 | 46.53% |
| 2028 | 610,000 | 95,000 | 705,000 | 5,605,000 | 52.50% |
| 2029 | 625,000 | 100,000 | 725,000 | 4,880,000 | 58.64% |
| 2030 | 650,000 | 105,000 | 755,000 | 4,125,000 | 65.04% |
| 2031 | 665,000 | 110,000 | 775,000 | 3,350,000 | 71.61% |
| 2032 | 695,000 | 115,000 | 810,000 | 2,540,000 | 78.47% |
| 2033 | 715,000 | 115,000 | 830,000 | 1,710,000 | 85.51% |
| 2034 | 740,000 | 120,000 | 860,000 | 850,000 | 92.80% |
| 2035 | 150,000 | 130,000 | 280,000 | 570,000 | 95.17% |
| 2036 | 150,000 | 135,000 | 285,000 | 285,000 | 97.58% |
| 2037 | - | 140,000 | 140,000 | 145,000 | 98.77% |
| 2038 | - | 145,000 | 145,000 | - | 100.00% |
| | <u>\$ 9,800,000</u> | <u>\$ 2,000,000</u> | <u>\$ 11,800,000</u> | | |

^(a) As of June 30, 2018.

* Preliminary, subject to change.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 9

| Category | 2018 | % of Total | 2017 | % of Total | 2016 | % of Total | 2015 | % of Total | 2014 | % of Total |
|--|-----------------------|----------------|-----------------------|----------------|-----------------------|----------------|-----------------------|----------------|-----------------------|----------------|
| Real, Residential, Single-Family | \$ 223,664,364 | 40.40% | \$ 191,315,786 | 37.60% | \$ 181,926,408 | 37.26% | \$ 167,606,409 | 36.59% | \$ 166,448,914 | 37.80% |
| Real, Residential, Multi-Family | 15,676,804 | 2.83% | 14,629,129 | 2.87% | 13,217,608 | 2.71% | 11,289,350 | 2.46% | 10,081,507 | 2.29% |
| Real, Vacant Lots/Tracts | 7,496,870 | 1.35% | 7,260,161 | 1.43% | 7,930,765 | 1.62% | 7,609,020 | 1.66% | 8,180,511 | 1.86% |
| Real, Acreage (Land Only) | 2,450,159 | 0.44% | 1,974,830 | 0.39% | 1,917,520 | 0.39% | 2,258,270 | 0.49% | 2,170,320 | 0.49% |
| Farm & Ranch Improvements | 6,247,155 | 1.13% | 5,318,883 | 1.05% | 5,633,563 | 1.15% | 5,237,370 | 1.14% | 5,325,369 | 1.21% |
| Real, Commercial | 154,810,624 | 27.96% | 149,012,337 | 29.28% | 145,119,013 | 29.72% | 132,987,249 | 29.03% | 123,232,591 | 27.98% |
| Real, Industrial | 141,230 | 0.03% | 139,810 | 0.03% | 139,120 | 0.03% | 138,460 | 0.03% | 137,780 | 0.03% |
| Real & Tangible, Personal Utilities | 16,807,290 | 3.04% | 13,449,410 | 2.64% | 13,262,960 | 2.72% | 12,259,470 | 2.68% | 11,755,010 | 2.67% |
| Tangible Personal, Business / Commercial | 49,935,570 | 9.02% | 50,380,510 | 9.90% | 49,666,360 | 10.17% | 51,449,840 | 11.23% | 48,029,580 | 10.91% |
| Tangible Personal, Industrial | 635,060 | 0.11% | 652,560 | 0.13% | 722,200 | 0.15% | 773,630 | 0.17% | 789,990 | 0.18% |
| Tangible Personal, Mobil Homes | 3,938,690 | 0.71% | 4,083,910 | 0.80% | 3,824,860 | 0.78% | 4,085,990 | 0.89% | 4,040,060 | 0.92% |
| Real Property, Inventory (Residential/Special) | 671,480 | 0.12% | 968,800 | 0.19% | 1,566,570 | 0.32% | 1,343,510 | 0.29% | 1,514,840 | 0.34% |
| Totally Exempt Property | 71,158,251 | 12.85% | 69,656,119 | 13.69% | 63,281,955 | 12.96% | 61,016,923 | 13.32% | 58,664,918 | 13.32% |
| Total Market Value | \$ 553,633,547 | 100.00% | \$ 508,842,245 | 100.00% | \$ 488,208,902 | 100.00% | \$ 458,055,491 | 100.00% | \$ 440,371,390 | 100.00% |
| Less Exemptions and Losses: | | | | | | | | | | |
| Local, Optional Over-65 and/or Disabled | \$ 4,596,997 | | \$ 4,740,280 | | \$ 4,913,712 | | \$ 4,832,529 | | \$ 4,901,525 | |
| Disabled and Deceased Veterans' | 7,456,278 | | 6,564,867 | | 5,737,841 | | 5,740,633 | | 5,130,128 | |
| Productivity Value Loss | 2,271,120 | | 1,898,750 | | 1,849,350 | | 2,126,140 | | 2,019,940 | |
| 10% Cap Loss | 11,546,553 | | 3,188,537 | | 4,704,330 | | 2,638,397 | | 4,202,475 | |
| Pollution Control | 55,512 | | 48,342 | | 48,342 | | 48,342 | | 48,342 | |
| Charitable / Other | 45,630 | | 393,540 | | 383,020 | | 223,180 | | 341,910 | |
| Partially Exempt Property | 22,341 | | 91,499 | | 44,625 | | 68,803 | | 30,438 | |
| Totally Exempt Property | 71,090,280 | | 69,178,610 | | 62,844,680 | | 60,731,500 | | 58,299,130 | |
| Total Exemptions | \$ 97,084,711 | | \$ 86,104,425 | | \$ 80,525,900 | | \$ 76,409,524 | | \$ 74,973,888 | |
| Net Taxable Assessed Valuation | \$ 456,548,836 | | \$ 422,737,820 | | \$ 407,683,002 | | \$ 381,645,967 | | \$ 365,397,502 | |

Source: McLennan County Appraisal District
 Note: Assessed Valuations shown here are Certified Valuations and may change during the year due to various supplements and protests. Valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

PRINCIPAL TAXPAYERS 2017-2018

TABLE 10

| <u>Name</u> | <u>Type of Business</u> | <u>2017 Net Taxable Assessed Valuation</u> | <u>% of Total 2015 Net Taxable Assessed Valuation</u> |
|-------------------------------------|-------------------------------|--|---|
| Butt H. E. Grocery Co. | Retail Grocery Sales | \$ 15,566,353 | 3.68% |
| Wal-Mart Real Estate Business Trust | Real Estate | 10,955,420 | 2.59% |
| Prem Sai Inc. | Hotel/Motel | 10,046,123 | 2.38% |
| Wal-Mart Stores East LP | Retail Sales | 8,363,160 | 1.98% |
| Sams Club East Inc. | Retail Sales | 8,245,580 | 1.95% |
| Bellmead McLennan NH Ltd. | Nursing Home | 7,679,060 | 1.82% |
| Home Depot USA Inc. | Retail Home Improvement Sales | 6,342,793 | 1.50% |
| Realty Income Properties 25 LLC | Real Estate Development | 5,807,970 | 1.37% |
| DC Guest Waco LLC | Hotel/Motel | 5,323,700 | 1.26% |
| TBA Associates LP | Real Estate - Apartment | 5,012,669 | 1.19% |
| Total | | \$ 83,342,828 | 19.72% |

Based on a 2017 Taxable Assessed Valuation of \$ 422,737,820

^(a) As shown in the table above, the top ten taxpayers in the City account for approximately 20% of the City's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE CERTIFICATES – Default and Remedies" and "AD VALOREM TAX PROCEDURES – Issuer's Rights in the Event of Tax Delinquencies" in this Official Statement.

Source: Texas Comptroller of Public Accounts

PROPERTY TAX RATES AND COLLECTIONS ^(a)

TABLE 11

| <u>Tax Year</u> | <u>Net Taxable Assessed Valuation</u> | <u>Tax Rate</u> | <u>Adjusted Tax Levy</u> | <u>% Collections</u> | | <u>Year Ended</u> |
|-----------------|---------------------------------------|-----------------|--------------------------|----------------------|--------------|-------------------|
| | | | | <u>Current</u> | <u>Total</u> | |
| 2007-08 | \$ 275,677,485 | \$ 0.267500 | \$ 778,490 | 96.54% | 100.10% | 9/30/2008 |
| 2008-09 | 291,103,380 | 0.253300 | 809,763 | 93.69% | 96.66% | 9/30/2009 |
| 2009-10 | 327,880,106 | 0.247000 | 806,616 | 96.02% | 98.10% | 9/30/2010 |
| 2010-11 | 328,311,013 | 0.265600 | 867,934 | 95.86% | 97.69% | 9/30/2011 |
| 2011-12 | 330,975,338 | 0.274500 | 903,305 | 96.65% | 99.62% | 9/30/2012 |
| 2012-13 | 337,473,605 | 0.298600 | 1,006,643 | 97.29% | 99.42% | 9/30/2013 |
| 2013-14 | 356,138,881 | 0.298608 | 1,060,718 | 94.66% | 96.05% | 9/30/2014 |
| 2014-15 | 365,397,502 | 0.298608 | 1,086,718 | 96.90% | 99.14% | 9/30/2015 |
| 2015-16 | 381,645,967 | 0.318608 * | 1,159,210 | 96.57% | 98.95% | 9/30/2016 |
| 2016-17 | 407,683,002 | 0.303761 | 1,230,486 | 96.94% | 98.92% | 9/30/2017 |
| 2017-18 | 422,737,820 | 0.299990 | 1,262,291 ^(b) | 96.17% | 99.10% | 9/30/2018 |

^(a) See "AD VALOREM TAX PROCEDURES - Levy and Collection of Taxes" in the body of the Official Statement for a complete discussion of the City's provisions.

^(b) Information is as of June 20, 2018.

Note: Assessed Valuations may change during the year due to various supplements and protests. Valuations in other tables of this Official Statement may not match those shown in this table.

Source: Texas Comptroller of Public Accounts, McLennan County Appraisal District, Texas Municipal Report published by the Municipal Advisory Council of Texas and the Issuer's Audited Financial Statements and Supplemental Information.

* Rolled back to \$0.303761.

TAX RATE DISTRIBUTION

TABLE 12

| | <u>2017-2018</u> | <u>2016-2017</u> | <u>2015-2016*</u> | <u>2014-2015</u> | <u>2013-2014</u> | <u>2012-2013</u> |
|--------------|------------------|------------------|-------------------|------------------|------------------|------------------|
| General Fund | \$0.227641 | \$0.227990 | \$0.224150 | \$0.214408 | \$0.214186 | \$0.211100 |
| I & S Fund | <u>0.072349</u> | <u>0.075771</u> | <u>0.079611</u> | <u>0.084200</u> | <u>0.084422</u> | <u>0.087508</u> |
| TOTAL | \$0.299990 | \$0.303761 | \$0.303761 | \$0.298608 | \$0.298608 | \$0.298608 |

Source: The Issuer

* Rolled back to \$0.303761.

FUND BALANCES

TABLE 13

| | As of September 30, 2017 | Unaudited as of May 31, 2018 |
|---|-----------------------------|---------------------------------|
| General Operating Fund | \$ 1,746,369 | \$ 1,960,115 |
| General Obligation Debt Service Fund | 265,929 | 315,398 |
| Water & Sewer Operating Fund | 4,556,935 | 5,983,822 |
| Special Revenue Funds (Hotel Occupancy & Court) | 1,598,380 | 1,649,364 |
| Street Improvements Fund (Sales Tax) | 2,454,179 | 2,470,702 |
| Capital Improvements Fund | 2,238,198 | 1,824,631 |
| Total | \$ 12,859,990 | \$ 14,204,032 |

MUNICIPAL SALES TAX

TABLE 14

At an election held on March 26, 1980, the registered voters of the City approved an additional one-half percent (½%) sales tax to be collected for economic development purposes in accordance with Chapters 501, 502 and 504, Texas Local Government Code, as amended (formerly Section 4A of Article 5190.6, Texas Revised Civil Statutes). Levy of this sales tax began on October 1, 1992.

At an election held on November 6, 2007, registered voters of the City voted to reduce the one-half percent (½%) additional sales tax for economic development to one-quarter percent (¼%) and approved an additional one-quarter percent (¼%) additional sales tax for street maintenance and improvements. Levy of these additional sales taxes did not begin until July 1, 2010.

At an election held on May 8, 2010, the registered voters of the City voted to dissolve the 4A Economic Development Corporation and approved an additional one-quarter percent (¼%) sales tax to be collected for community development purposes in accordance with Chapters 501, 502 and 505, Texas Local Government Code, as amended (formerly Section 4B of Article 5190.6, Texas Revised Civil Statutes). Levy of this community development sales tax began on October 1, 2010.

The City has not held an election regarding an additional sales tax for reduction of property tax reduction.

The Commissioners Court of McLennan County levies and assesses the remaining ½% additional sales and use tax for ad valorem property tax reduction.

The City anticipates being a participant in the financing of the "Bellmead Multi-Purpose Venue" (the "Project") as authorized and approved by the voters of the City at a venue project election held in the City on May 5, 2018 (the "Election"). The participants in the Project are in the process of negotiating the terms and timing of the Project, including negotiations with a professional baseball team. As of the date of this Official Statement, it is anticipated that a one-quarter percent (1/4%) sales tax (the "4B Tax") levied in the City and collected by the Bellmead Economic Development Corporation (the "EDC") will be the security pledged for the issuance of obligations in the approximate amount of \$4,000,000 in calendar year 2019. As authorized at the Election, the City is additionally authorized to levy and collect a hotel occupancy tax ("HOT") in the City and pledge such HOT to the repayment of obligations issued to finance the Project, or to use the proceeds of the HOT to maintain and operate the Project. However, as of the date of this Official Statement, the City does not anticipate issuing obligations secured by the HOT to finance the Project. Other than the potential issuance of obligations secured by either sales tax revenues or HOT revenue as described above in calendar year 2019, the City does not anticipate issuing additional obligations secured by ad valorem taxes or net revenues of the City's combined utility system in the next twelve months, except potentially refunding bonds for debt service savings.

| Year | Collections | Collections | Tax Levy | Tax Rate | Collections | Collections |
|------|--------------------------|--------------|----------|----------|---------------------------|-------------|
| 2008 | \$ 2,991,705 | \$ 1,994,470 | 256.20% | 0.69 | \$ 997,235 ^(a) | - |
| 2009 | 3,034,576 | 2,023,051 | 249.83% | 0.63 | 1,011,525 ^(a) | - |
| 2010 | 3,074,535 | 2,049,690 | 254.11% | 0.63 | 1,024,845 ^(a) | - |
| 2011 | 3,132,993 | 2,088,662 | 240.65% | 0.64 | 522,166 ^(b) | \$ 522,166 |
| 2012 | 3,161,020 | 2,107,347 | 233.29% | 0.64 | 526,837 ^(b) | 526,837 |
| 2013 | 3,278,348 | 2,185,565 | 217.11% | 0.65 | 546,391 ^(b) | 546,391 |
| 2014 | 3,282,297 | 2,188,198 | 206.29% | 0.62 | 547,050 ^(b) | 547,050 |
| 2015 | 3,433,253 | 2,288,836 | 210.62% | 0.63 | 572,209 ^(b) | 572,209 |
| 2016 | 3,529,550 | 2,353,033 | 202.99% | 0.65 | 588,258 ^(b) | 588,258 |
| 2017 | 3,590,319 | 2,393,546 | 194.52% | 0.59 | 598,386 ^(b) | 598,386 |
| 2018 | 2,159,354 ^(c) | 1,439,569 | 114.04% | 0.34 | 359,892 ^(b) | 359,892 |

^(a) Represents 0.50% collections.

^(b) Represents 0.25% collections.

^(c) Collections as of June, 2018.

Sources: Texas Comptroller of Public Accounts Website.

Note: The Comptroller's website figures list sales tax revenues in the month they are delivered to the City, which is two months after they are generated/collected.

OVERLAPPING DEBT DATA AND INFORMATION

TABLE 15

(As of June 30, 2018)

| <u>Taxing Body</u> | <u>Gross Debt</u> | | <u>Amount</u> <u>Overlapping</u> |
|--|-----------------------------|----------------------|-------------------------------------|
| | <u>Principal</u> | <u>% Overlapping</u> | |
| Connally Independent School District | \$ 14,530,000 | 0.84% | \$ 122,052 |
| La Vega Independent School District | 38,980,668 | 48.43% | 18,878,338 |
| McLennan County | 23,250,000 | 2.36% | 548,700 |
| McLennan County Junior College District | 61,495,000 | 2.36% | 1,451,282 |
| Total Gross Overlapping Debt | | | \$ 21,000,372 |
| City of Bellmead | 11,800,000 ^{(a) *} | 100.00% | 11,800,000 ^{(a) *} |
| Total Gross Direct and Overlapping Debt Principal | | | \$ 32,800,372 ^{(a) *} |
| Ratio of Direct and Overlapping Debt to 2018 Net Taxable Assessed Valuation | | | 7.18% ^{(a) *} |
| Ratio of Direct and Overlapping Debt to 2018 Actual Market Value | | | 5.92% ^{(a) *} |
| Per Capita Direct and Overlapping Debt | | | \$3,123 ^{(a) *} |
| Note: Figures above show Gross General Obligation Debt Principal for the City of Bellmead, Texas | | | |
| The Issuer's Net General Obligation Debt Principal | | | \$ 5,360,000 ^{(a) *} |
| Calculations on Net General Obligation Debt Principal would change the above figures as follows: | | | |
| Total Net Direct and Overlapping Debt Principal | | | \$ 26,360,372 ^{(a) *} |
| Ratio of Net Direct and Overlapping Debt Principal to 2018 Net Taxable Assessed Valuation | | | 5.77% ^{(a) *} |
| Ratio of Net Direct and Overlapping Debt Principal to 2018 Actual Market Value | | | 4.76% ^{(a) *} |
| Per Capita Net Direct and Overlapping Debt Principal | | | \$2,510 ^{(a) *} |
| 2018 Net Taxable Assessed Valuation | | | \$456,548,836 |

^(a) Includes the Certificates.

* Preliminary, subject to change.

Source: The most recent Texas Municipal Reports published by the Municipal Advisory Council of Texas

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 16

| <u>Governmental Entity</u> | <u>2017 Net Taxable</u> | | <u>2017</u> <u>Tax Rate</u> |
|--------------------------------------|---------------------------|--------------------|--------------------------------|
| | <u>Assessed Valuation</u> | <u>% of Actual</u> | |
| Connally Independent School District | \$ 611,119,999 | 100% | \$1.37400 |
| La Vega Independent School District | 786,514,823 | 100% | 1.41400 |
| McLennan County | 15,476,710,204 | 100% | 0.50500 |
| McLennan Community College | 16,550,939,331 | 100% | 0.15000 |

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

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

TABLE 17

| <u>Taxing Body</u> | <u>Date of</u> <u>Authorization Purpose</u> | <u>Amount</u> <u>Authorized</u> | <u>Issued</u> <u>To-Date</u> | <u>Unissued</u> |
|---|--|------------------------------------|---------------------------------|-----------------|
| | | | | |
| La Vega Independent School District | None | | | |
| McLennan County | None | | | |
| McLennan County Community College Dist. | None | | | |
| City of Bellmead | None | | | |

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

**GENERAL FUND COMBINED STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES**

TABLE 18

Fiscal Year Ended September 30

| REVENUES: | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| Property Taxes | \$ 927,814 | \$ 856,729 | \$ 787,777 | \$ 768,018 | \$ 721,099 |
| Sales Taxes | 2,993,211 | 2,941,292 | 2,861,045 | 2,735,250 | 2,731,957 |
| Franchise Taxes | 503,812 | 518,565 | 531,867 | 523,085 | 492,154 |
| Hotel Occupancy Taxes | - | - | - | - | - |
| Other Taxes | 54,713 | 57,722 | 57,993 | 59,713 | 52,305 |
| Licenses and Permits | 35,182 | 33,761 | 42,170 | 46,792 | 55,093 |
| Intergovernmental | 61,630 | 76,929 | 79,912 | 92,029 | 89,713 |
| Rent | - | - | - | 40 | - |
| Parks and Recreation Fees | - | - | - | - | - |
| Fines and Fees | 234,317 | 320,431 | 332,056 | 357,416 | 371,414 |
| Investment Earnings | 22,900 | 18,778 | 20,158 | 17,292 | 15,658 |
| Miscellaneous | 76,307 | 757,909 | 663,156 | 624,226 | 479,102 |
| Total Revenues | \$ 4,909,886 | \$ 5,582,116 | \$ 5,376,134 | \$ 5,223,861 | \$ 5,008,495 |
| EXPENDITURES: | | | | | |
| General Government | \$ 1,111,229 | \$ 1,121,916 | \$ 1,013,370 | \$ 982,935 | \$ 909,033 |
| Public Safety | 3,454,302 | 3,329,224 | 3,189,027 | 3,040,225 | 2,818,756 |
| Highways and Streets | 1,335,898 | 605,892 | 817,744 | 584,008 | 616,325 |
| Economic and Physical Development | - | - | - | - | 1,000 |
| Culture and Recreation | 63,809 | 82,830 | 87,967 | 82,883 | 69,733 |
| Debt Service | - | - | - | - | - |
| Total Expenditures | \$ 5,965,238 | \$ 5,139,862 | \$ 5,108,108 | \$ 4,690,051 | \$ 4,414,847 |
| Excess (Deficit) of Revenues Over Expenditures | \$ (1,055,352) | \$ 442,254 | \$ 268,026 | \$ 533,810 | \$ 593,648 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers In | \$ 728,107 | \$ - | \$ - | \$ - | \$ - |
| Transfers Out | - | (227) | - | - | - |
| Proceeds from Debt Issuance | - | - | - | - | - |
| Sale of Property | - | - | - | - | - |
| Total Other Financing Sources (Uses) | \$ 728,107 | \$ (227) | \$ - | \$ - | \$ - |
| Net Change in Fund Balance | \$ (327,245) | \$ 442,027 | \$ 268,026 | \$ 533,810 | \$ 593,648 |
| Fund Balance - October 1 (Beginning) | 4,527,793 | 4,085,766 | 3,817,740 | 3,283,920 | 2,690,282 |
| Prior Year Adjustment | - | - | - | 10 | - |
| Fund Balance - September 30 (Ending) | \$ 4,200,548⁽¹⁾ | \$ 4,527,793 | \$ 4,085,766 | \$ 3,817,740 | \$ 3,283,930 |

Source: The Issuer's Audited Annual Financial Reports

⁽¹⁾ City administration anticipates that the unaudited General Fund balance for the period ending September 30, 2018 will be approximately \$3,983,734.

Fiscal Year Ended September 30

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|---------------------------------|---------------------|---------------------|
| Revenues ^(a) | \$ 2,794,323 | \$ 2,758,010 | \$ 2,653,876 | \$ 2,760,460 | \$ 2,681,105 |
| Expenses ^(b) | <u>1,850,684</u> | <u>2,079,183</u> | <u>1,667,878</u> ^(c) | <u>1,523,105</u> | <u>1,528,841</u> |
| Net Revenue Available for Debt Service | <u>\$ 943,639</u> | <u>\$ 678,827</u> | <u>\$ 985,998</u> | <u>\$ 1,237,355</u> | <u>\$ 1,152,264</u> |
| Annual Debt Service Requirements for Revenue Bonds | \$ - | \$ - | \$ - | \$ - | \$ - |
| Coverage of Revenue Debt Service | N/A | N/A | N/A | N/A | N/A |
| Annual Debt Service Requirements for General Obligation Debt Service Paid from System Revenues | \$ 493,425 | \$ 333,967 | \$ 313,147 | \$ 190,740 | \$ 193,962 |
| Coverage of <u>All Debt</u> Paid From System Revenues | 1.91 x | 2.03 x | 3.15 x | 6.49 x | 5.94 x |
| Customer Count: | | | | | |
| Water | 3,517 | 3,506 | 3,455 | 3,454 | 3,389 |
| Sewer | 3,419 | 3,408 | 3,357 | 3,356 | 3,276 |

^(a) Revenues include operating revenues, interest income and other revenues of the Waterworks and Sewer System.

^(b) Expenses include total expenses less depreciation and amortization of the Waterworks and Sewer System.

^(c) During Fiscal Year 2015, two of the City's water wells failed and were replaced at a one-time cost of \$350,000.

Sources: Information from the Issuer and the Issuer's Annual Audited Financial Reports

WATER RATES**TABLE 20***(Based on Monthly Billing)*

Effective June 25, 2016

| | | |
|--|----|-------|
| Minimum Monthly Charge - First 2,000 Gallons | \$ | 17.00 |
| Per each additional 1,000 Gallons of Consumption (Within City Limits) | \$ | 3.50 |
| Per each additional 1,000 Gallons of Consumption (Outside City Limits) | \$ | 5.20 |

PRINCIPAL WATER CUSTOMERS**TABLE 21***(As of September 30, 2017)*

| <u>Name of Customer</u> | <u>Average Monthly Consumption (Gals.)</u> | <u>Average Monthly Bill</u> |
|---|--|------------------------------------|
| Atrium of Bellmead | 2,348,100 | \$ 8,467.44 |
| Bordeaux Apartments | 653,100 | 2,120.27 |
| Eaglecrest Apartments | 665,500 | 4,089.51 |
| Bellmead Carwash | 452,100 | 1,673.61 |
| Delta Inn | 399,000 | 1,396.26 |
| Home Depot | 204,100 | 776.42 |
| Cloverleaf Mobile Park | 906,000 | 728.41 |
| Bellmead Kidney Center | 384,100 | 1,421.84 |
| HEB Grocery | 652,000 | 1,243.14 |
| Holiday Inn | 307,500 | 1,629.27 |
| Total | <u>6,971,500</u> | <u>\$ 23,546.17</u> ^(a) |
| Total Water Sales as of September 30, 2017. | \$ 1,785,320 | |

^(a) *Principal Water Customers represent approximately 14.05% of total annual water sales.***WASTEWATER RATES****TABLE 22***(Based on Monthly Billing)*

Effective June 25, 2016

| | | |
|---|----|-------|
| Residential Customers Minimum (First 1,000 Gallons) | \$ | 9.50 |
| Per each additional 1,000 Gallons of Consumption | \$ | 2.50 |
| Maximum Charge | \$ | 21.00 |
| Commercial Customers | \$ | 9.50 |
| Per each additional 1,000 Gallons of Consumption | \$ | 2.50 |

PRINCIPAL SEWER CUSTOMERS**TABLE 23***(As of September 30, 2017)*

| <u>Name of Customer</u> | <u>Average Monthly Consumption (Gals.)</u> | <u>Average Monthly Bill</u> |
|---|--|------------------------------------|
| Atrium of Bellmead | 2,348,100 | \$ 4,477.20 |
| Bordeaux Apartments | 653,100 | 1,242.27 |
| Eaglecrest Apartments | 665,500 | 1,988.03 |
| Bellmead Carwash | 452,100 | 424.33 |
| Delta Inn | 399,000 | 578.26 |
| Home Depot | 204,100 | 273.68 |
| Cloverleaf Mobile Park | 906,000 | 342.00 |
| Bellmead Kidney Center | 384,100 | 412.30 |
| HEB Grocery | 652,000 | 269.57 |
| Holiday Inn | 307,500 | 603.33 |
| Total | <u>6,971,500</u> | <u>\$ 10,610.97</u> ^(a) |
| Total Sewer Charges as of September 30, 2017. | \$ 904,836 | |

^(a) *Principal Sewer Customers represent approximately 15.18% of total annual sewer charges.*

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF BELLMEAD AND MCLENNAN COUNTY, TEXAS

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**GENERAL INFORMATION REGARDING THE CITY OF BELLMEAD
AND MCLENNAN COUNTY, TEXAS**

General

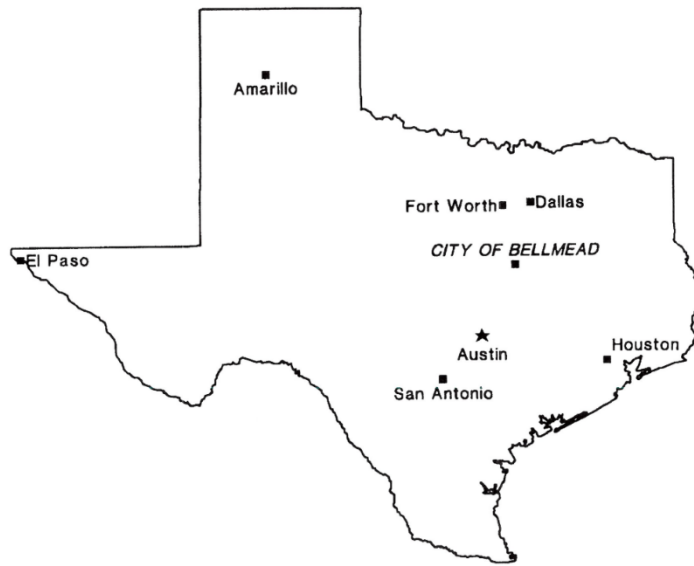
The City of Bellmead is a residential area located three miles to the northeast of Waco on U.S. Highway 84. The 2010 census was 9,901, increasing 7.46% since 2000. The current population estimate is 10,503. Many residents of the City work in Waco.

McLennan County is located in central Texas and comprises the Waco Metropolitan Statistical Area (MSA). The County's economy is based primarily on manufacturing and agriculture, with higher education also making a significant impact on the economy. The County is traversed by interstate Highway 35, United States Highways 77, 81 and 84, State Highways 6, 31 and 317, and 29 farm-to-market and park roads. The County economy has experienced a growth trend from new industry, expansions of existing industry and new commercial investment that is generating service sector and manufacturing jobs. The City of Waco is the county seat and a center for manufacturing, tourism, conventions and agribusiness for central Texas.

The County is a major center for higher education. Baylor University, the world's largest Southern Baptist University, with an approximate enrollment of 17,000 is located in the City of Waco. Also located in the County are McLennan Community College and the Texas State Technical College - James Connally Campus.

Recreational and camping facilities are provided at Fort Fisher Park and Lake Waco. Other points of interest include the Homer Garrison, Jr. Texas Ranger Museum, Texas Ranger Hall of Fame, Cameron Park and the Cen-Tex Zoo. Activities of interest include the Brazos River Festival, symphony orchestra, civic theater, college and university events, Heart O' Texas Fair Rodeo and the Central Texas Fair.

Source: Latest Texas Municipal Report published by the Municipal Advisory Council of Texas



Population:

| <u>Year</u> | <u>City of Bellmead</u> | <u>McLennan County</u> |
|---------------|-----------------------------|----------------------------|
| 2018 Estimate | 10,503 | 251,259 |
| 2010 Census | 9,901 | 234,906 |
| 2000 Census | 9,214 | 213,517 |
| 1990 Census | 8,336 | 189,123 |

Sources: United States Bureau of the Census and the City of Bellmead

Leading Employers Bellmead and the Surrounding Area:

| <u>Employer</u> | <u>Type of Business</u> | <u>2018 Number of Employees</u> |
|-------------------------------------|-------------------------------------|---|
| Baylor University | Higher Education | 2,901 |
| HEB Grocery | Grocery | 1,600 |
| L-3 Integrated Systems | Aircraft maintenance / Modification | 1,349 |
| Sanderson Farms | Poultry Factory | 1,215 |
| Wal-Mart | Retail Sales | 1,026 |
| Texas State Technical College | Technical Higher Education | 630 |
| La Vega Independent School District | Public School Education | 491 |
| Sherwin Williams | Paint Manufacturer | 318 |
| Sam's Club | Retail Sales | 130 |

Source: Information from the Issuer

Labor Force Statistics

| | <u>McLennan County</u> | | <u>Waco MSA</u> | | <u>State of Texas</u> | |
|------------------------------|------------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|
| | <u>May 2018</u> | <u>May 2017</u> | <u>May 2018</u> | <u>May 2017</u> | <u>May 2018</u> | <u>May 2017</u> |
| Civilian Labor Force | 119,274 | 117,607 | 126,401 | 124,331 | 13,836,477 | 13,498,726 |
| Total Employed | 115,125 | 113,336 | 121,645 | 119,783 | 13,321,229 | 12,940,819 |
| Total Unemployed | 4,149 | 4,271 | 4,396 | 4,548 | 515,248 | 557,907 |
| % Unemployed | 3.5% | 3.6% | 3.5% | 3.7% | 3.7% | 4.1% |
| % Unemployed (United States) | 3.6% | 4.1% | 3.6% | 4.1% | 3.6% | 4.1% |

Source: Texas Workforce Commission, Labor Market Information Department.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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DRAFT 7/25/18

IN REGARD to the authorization and issuance of the “City of Bellmead, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018” (the *Certificates*), dated August 1, 2018 in the aggregate principal amount of \$_____ we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Bellmead, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of March 1 in each of the years 2019 through 2038, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

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

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF BELLMEAD, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018”

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

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

FOR TAXABLE YEARS THAT BEGAN BEFORE JANUARY 1, 2018, interest on the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF BELLMEAD, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018”

subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

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APPENDIX D

**EXCERPTS FROM THE CITY OF BELLMEAD AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2017**

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

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ANNUAL FINANCIAL REPORT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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CITY OF BELLMEAD, TEXAS

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FINANCIAL SECTION

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Bellmead, Texas

Report on the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and the schedule of contributions on pages 4 – 11 and 44 – 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bellmead's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor 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 nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Waco, Texas
March 13, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Bellmead, Texas (the "City") offers the following overview and analysis of the City's financial statements and financial activities for the fiscal year ended September 30, 2017. It should be read in conjunction with the City's financial statements, which follow this section.

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 \$30,942,966 (net position). Of this amount, \$8,432,978 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with fund designation and fiscal policies. In the prior year, the City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$30,796,412. Of this amount, \$9,834,901 (unrestricted net position) could have been used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- As of September 30, 2017, the City of Bellmead's governmental funds reported ending fund balances of \$13,074,273. Of this amount, \$1,734,648 is unassigned fund balance in the General Fund available for use within the City's fund designation and fiscal policies. In the prior year, the City's governmental funds reported ending fund balances of \$13,459,240. Of this amount, \$1,854,773 was unassigned fund balance in the General Fund available for use within the City's fiscal policies.
- As of September 30, 2017, the restricted net position of the governmental activities is \$7,570,424 of which \$5,651,338 is restricted for economic development and \$1,545,094 was restricted for culture and recreation. In the prior year, restricted net position of the governmental activities was \$7,372,858 of which \$5,509,434 was restricted for economic development and \$1,421,289 was restricted for culture and recreation.
- As of September 30, 2017, the City of Bellmead's Enterprise Fund reported ending fund net position of \$8,757,739. Of this amount, \$4,556,935 is unrestricted fund net position available for use within the City's fund designation and fiscal policies. In the prior year, the City's Enterprise Fund reported ending fund net position of \$8,780,546. Of this amount, \$5,655,690 was unrestricted fund net position available for use within the City's fiscal policies.

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 include three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City'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 between the two 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 in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the full accrual basis of accounting.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by citations, sales tax, street tax, 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, economic development, culture and recreation, and highways and streets. The business-type activities of the City include a water distribution operation and sewer services.

The government-wide financial statements can be found on pages 12 and 13 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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into 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 evaluating a government's near-term financing requirements.

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

The basic governmental fund financial statements can be found on pages 14 through 18 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 distribution operations and sewer services. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 19 through 21 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 – 43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net position may serve as a useful indicator of a government’s financial position. The City’s combined net position was \$30,942,966 at September 30, 2017, which is a 0.48% increase from September 30, 2016. (See Table A-1) The largest portion of the City’s net position, \$14,939,564, reflects its investment in capital assets (e.g., land, buildings and improvements, equipment, and water and sewer facilities), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

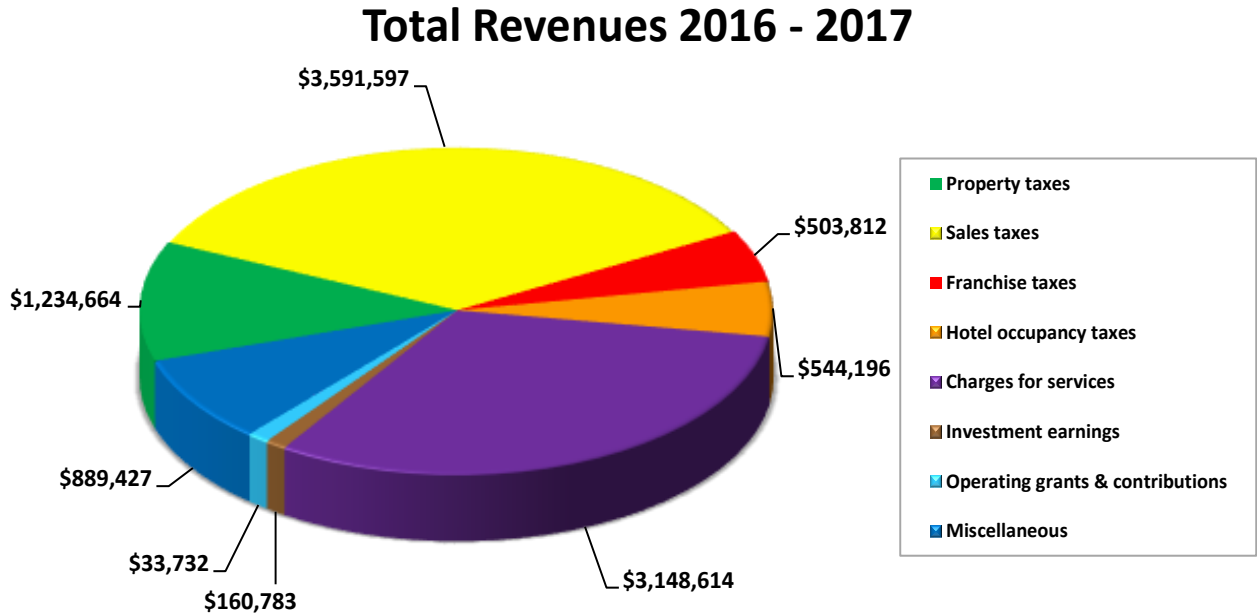
**Table A-1
City of Bellmead, Texas’ Net Position**

| | Governmental Activities | | Business-type Activities | | Totals | |
|-------------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ 14,601,083 | \$ 14,867,161 | \$ 11,454,164 | \$ 12,873,178 | \$ 26,055,247 | \$ 27,740,339 |
| Capital assets | <u>12,120,151</u> | <u>11,617,363</u> | <u>5,006,653</u> | <u>3,722,682</u> | <u>17,126,804</u> | <u>15,340,045</u> |
| Total assets | <u>26,721,234</u> | <u>26,484,524</u> | <u>16,460,817</u> | <u>16,595,860</u> | <u>43,182,051</u> | <u>43,080,384</u> |
| Total deferred outflows of resource | <u>742,778</u> | <u>920,410</u> | <u>86,678</u> | <u>122,002</u> | <u>829,456</u> | <u>1,042,412</u> |
| Long-term liabilities | 4,148,403 | 4,494,902 | 6,744,579 | 6,994,825 | 10,892,982 | 11,489,727 |
| Other liabilities | <u>700,462</u> | <u>531,560</u> | <u>995,008</u> | <u>896,251</u> | <u>1,695,470</u> | <u>1,427,811</u> |
| Total liabilities | <u>4,848,865</u> | <u>5,026,462</u> | <u>7,739,587</u> | <u>7,891,076</u> | <u>12,588,452</u> | <u>12,917,538</u> |
| Total deferred inflows of resources | <u>429,920</u> | <u>362,606</u> | <u>50,169</u> | <u>46,240</u> | <u>480,089</u> | <u>408,846</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 10,738,760 | 10,463,797 | 4,200,804 | 3,124,856 | 14,939,564 | 13,588,653 |
| Restricted | 7,570,424 | 7,372,858 | - | - | 7,570,424 | 7,372,858 |
| Unrestricted | <u>3,876,043</u> | <u>4,179,211</u> | <u>4,556,935</u> | <u>5,655,690</u> | <u>8,432,978</u> | <u>9,834,901</u> |
| Total net position | <u>\$ 22,185,227</u> | <u>\$ 22,015,866</u> | <u>\$ 8,757,739</u> | <u>\$ 8,780,546</u> | <u>\$ 30,942,966</u> | <u>\$ 30,796,412</u> |

As of September 30, 2017, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as separately for its governmental and business-type activities.

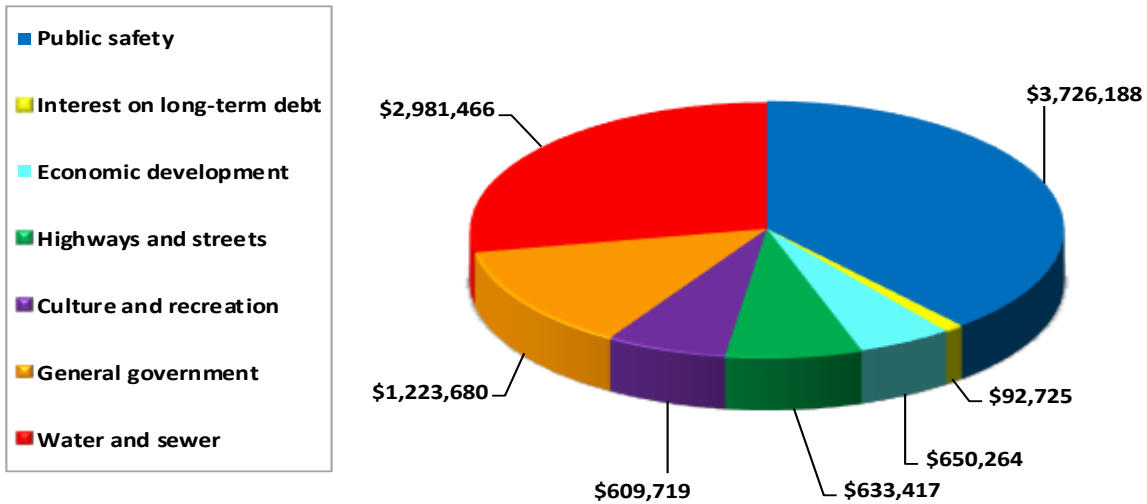
Changes in Net Position. The City’s total revenues were \$9,373,391. Property taxes comprise 13.17%, or \$1,234,664 of the City’s revenue. Sales tax revenue comprises 38.32%, or \$3,591,597 of the City’s revenue. In addition, 33.59% or \$3,148,614 comes from charges for services; water and sewer fees of \$2,771,776 comprise 88.03% of the charges for services.

For the prior year, The City’s total revenues were \$9,315,741. Property taxes comprise 12.70%, or \$1,183,252 of the City’s revenue. Sales tax revenue comprises 37.89%, or \$3,529,550 of the City’s revenue. In addition, 33.98% or \$3,165,037 comes from charges for services; water and sewer fees of \$2,758,010 of the charges for services.



The total cost of all programs and services for the year ended September 30, 2017, was \$9,226,837. For the prior year ended September 30, 2016, the total cost of all programs and services was \$8,700,168.

Total Expenses 2016 - 2017



Governmental Activities

- The City’s property tax rate remained \$0.303761 per \$100 valuation. Assessed values also increased during fiscal year 2017.
- City Sales tax revenue increased \$62,047 or 1.76% from the prior year due to continued economic growth.
- The increases in public safety are related to the additional salaries expenses including some from the change in administrative services. Highways and streets decreased due to decreased expenditures related to the significant street rehab project.

Business-type Activities

- Water and sewer expenses increased due to salaries and benefits, utilities, and water purchases.

Table A-2
City of Bellmead, Texas' Statement of Activities

| | Governmental Activities | | Business-type Activities | | Totals | |
|-------------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 376,838 | \$ 407,027 | \$ 2,771,776 | \$ 2,758,010 | \$ 3,148,614 | \$ 3,165,037 |
| Operating grants | 34,732 | 76,929 | - | 34,244 | 34,732 | 111,173 |
| General revenues: | | | | | | |
| Property taxes | 1,234,664 | 1,183,252 | - | - | 1,234,664 | 1,183,252 |
| Sales taxes | 3,591,597 | 3,529,550 | - | - | 3,591,597 | 3,529,550 |
| Franchise taxes | 503,812 | 518,565 | - | - | 503,812 | 518,565 |
| Hotel occupancy | 544,196 | 539,344 | - | - | 544,196 | 539,344 |
| Investment earnings | 138,233 | 97,768 | 22,547 | 10,744 | 160,780 | 108,512 |
| Miscellaneous | 154,996 | 160,308 | - | - | 154,996 | 160,308 |
| Total revenues | <u>6,579,068</u> | <u>6,512,743</u> | <u>2,794,323</u> | <u>2,802,998</u> | <u>9,373,391</u> | <u>9,315,741</u> |
| Expenses | | | | | | |
| General government | 1,230,900 | 1,244,747 | - | - | 1,230,900 | 1,244,747 |
| Public safety | 3,759,489 | 3,635,664 | - | - | 3,759,489 | 3,635,664 |
| Highways and streets | 626,393 | 686,991 | - | - | 626,393 | 686,991 |
| Economic development | 381,764 | 239,756 | - | - | 381,764 | 239,756 |
| Culture and recreation | 520,838 | 528,991 | - | - | 520,838 | 528,991 |
| Interest on long-term debt | 92,725 | 100,519 | - | - | 92,725 | 100,519 |
| Water and sewer | - | - | 2,614,728 | 2,263,500 | 2,614,728 | 2,263,500 |
| Total expenses | <u>6,612,109</u> | <u>6,436,668</u> | <u>2,614,728</u> | <u>2,263,500</u> | <u>9,226,837</u> | <u>8,700,168</u> |
| Increase (decrease) in net position | | | | | | |
| before transfers | (33,041) | 76,075 | 179,595 | 539,498 | 146,554 | 615,573 |
| Transfers | <u>202,402</u> | <u>397,298</u> | <u>(202,402)</u> | <u>(397,298)</u> | <u>-</u> | <u>-</u> |
| Changes in net position | <u>169,361</u> | <u>473,373</u> | <u>(22,807)</u> | <u>142,200</u> | <u>146,554</u> | <u>615,573</u> |
| Net position, beginning | <u>22,015,866</u> | <u>21,542,493</u> | <u>8,780,546</u> | <u>8,638,346</u> | <u>30,796,412</u> | <u>30,180,839</u> |
| Net position, ending | <u>\$ 22,185,227</u> | <u>\$ 22,015,866</u> | <u>\$ 8,757,739</u> | <u>\$ 8,780,546</u> | <u>\$ 30,942,966</u> | <u>\$ 30,796,412</u> |

Analysis of the City's Operations. Table A-2 provides a summary of the City's operations for the year ended September 30, 2017. The governmental activities increased the City's net position by \$169,361 due to increases in property and sales tax revenue mentioned above. The business-type activities decreased net position by \$22,807 to increases in water purchases.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS AND BUDGETARY HIGHLIGHTS

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 City's net resources available for spending at the end of the fiscal year. At the end of the 2017 fiscal year, the City's governmental funds reported combined ending fund balances of \$13,074,273, a decrease of \$384,967 from the prior year. Approximately 13.27% of this total amount is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is restricted for a variety of purposes. The majority is restricted for economic development, capital projects, and debt service (\$8,820,439).

General Fund. 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 \$1,734,648, while the total fund balance was \$4,200,548. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to expenditures. Unassigned fund balance represents 29.08% of the General Fund expenditures, while total fund balance represents 70.42% of that same amount.

Bellmead EDC Fund. The fund balance of the Bellmead EDC Funds increased \$235,941. Fund balance was projected to increase by \$139,700 in the final budget, but economic development expenditures were less than the final budgeted amounts by \$352,234.

Hotel/Motel Tax Fund. The fund balance of the Hotel/Motel Tax Fund increased \$123,805. Fund balance was projected to increase by \$15,676 in the final budget, but culture and recreation expenditures were less than the final budgeted amounts by \$151,514.

Capital Projects Fund. The fund balance of the Capital Projects Fund decreased \$431,331. Fund balance decreased due to an ongoing street rehabilitation project.

Proprietary Fund

For the current year, actual expenses as compared to prior year actual expenses increased by \$12,985, or 0.49%. Operating revenues in the current year were \$13,766 or 0.50% more than the operating revenues in the prior year. The notable increases in operating revenues was an increase in water sales in the amount of \$47,927 offset by a decrease in water and sewer tap fees.

General Fund Budgetary Highlights

The general fund's revised expenditure budget was \$689,830 greater than the figure originally adopted (an increase of about 12.2%). This increase is attributable to supplemental appropriations of \$689,830 to fund the street rehabilitation project.

For the fiscal year 2016-2017, revenue and expenditures were below budgetary estimates. Actual expenditures were below budgeted expenditures were below budgetary estimates. Actual expenditures were below budgeted expenditures by \$364,822. The most significant variance resulted from actual expenditures being less than budgeted in highways and streets by \$355,948.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year ended September 30, 2017, the City spent \$1,113,216 for governmental capital asset additions. Of the additions, \$127,044 represented the equipment and vehicles purchased. Additionally, the City spent \$406,391 for enterprise capital asset additions during the year ended September 30, 2017.

- Total gross governmental capital assets as of September 30, 2017, are \$20,618,053. For the prior year, gross governmental capital assets were \$19,504,025.
- Total gross enterprise capital assets as of September 30, 2017, are \$15,165,661. For the prior year, gross enterprise capital assets were \$12,560,571.

Additional information on the City's capital assets can be found in the notes to the financial statements on pages 33 – 34 of this report.

Long-term Debt

At September 30, 2017, the City had \$10,401,720 in bonds and notes outstanding. As of September 30, 2016, the City had \$10,805,000 in bonds and notes outstanding.

Additional information on the City's long-term debt can be found in the notes to the financial statements on pages 34 – 36 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is continuing to budget conservatively in order to maintain fiscal responsibility. The unassigned fund balance in the General Fund is currently approximately 4.5 months of estimated expenditures for a year. The City will continue to monitor its fund balance closely in order to keep a strong fund balance for future considerations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Manager, City of Bellmead, Texas, 3015 Bellmead Drive, Bellmead, Texas 76705.

BASIC FINANCIAL STATEMENTS

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CITY OF BELLMEAD, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 16,749,785 | \$ 4,423,854 | \$ 21,173,639 |
| Accounts receivable, net | 883,767 | 331,734 | 1,215,501 |
| Inventories | 728 | 5,000 | 5,728 |
| Internal balances | (3,913,757) | 3,913,757 | - |
| Prepays | 440 | - | 440 |
| Restricted cash and cash equivalents | - | 2,779,819 | 2,779,819 |
| Lease receivable | 880,120 | - | 880,120 |
| Capital assets not being depreciated: | | | |
| Land | 2,771,193 | 38,799 | 2,809,992 |
| Construction in progress | 1,094,676 | 452,101 | 1,546,777 |
| Capital assets, net of accumulated depreciation: | | | |
| Building and improvements | 4,545,399 | 670,557 | 5,215,956 |
| Infrastructure | 2,526,312 | - | 2,526,312 |
| Water and sewer facilities | - | 3,583,886 | 3,583,886 |
| Equipment | 1,182,571 | 261,310 | 1,443,881 |
| Total assets | <u>26,721,234</u> | <u>16,460,817</u> | <u>43,182,051</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pension | <u>742,778</u> | <u>86,678</u> | <u>829,456</u> |
| Total deferred outflows of resources | <u>742,778</u> | <u>86,678</u> | <u>829,456</u> |
| LIABILITIES | | | |
| Accounts payable | 377,359 | 289,483 | 666,842 |
| Accrued liabilities | 45,415 | 5,927 | 51,342 |
| Customer deposits | - | 368,199 | 368,199 |
| Accrued interest | - | 15,244 | 15,244 |
| Noncurrent liabilities: | | | |
| Due within one year | 277,688 | 316,155 | 593,843 |
| Due in more than one year | 4,148,403 | 6,744,579 | 10,892,982 |
| Total liabilities | <u>4,848,865</u> | <u>7,739,587</u> | <u>12,588,452</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pension | <u>429,920</u> | <u>50,169</u> | <u>480,089</u> |
| Total deferred inflows of resources | <u>429,920</u> | <u>50,169</u> | <u>480,089</u> |
| NET POSITION | | | |
| Net investment in capital assets | 10,738,760 | 4,200,804 | 14,939,564 |
| Restricted for: | | | |
| Court security and technology | 53,286 | - | 53,286 |
| Public safety | 10,553 | - | 10,553 |
| Debt service | 310,153 | - | 310,153 |
| Tourism | 1,545,094 | - | 1,545,094 |
| Economic development | 5,651,338 | - | 5,651,338 |
| Unrestricted | <u>3,876,043</u> | <u>4,556,935</u> | <u>8,432,978</u> |
| Total net position | <u>\$ 22,185,227</u> | <u>\$ 8,757,739</u> | <u>\$ 30,942,966</u> |

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

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

| Functions/Programs | Program Revenue | | Net (Expense) Revenue and Changes in Net Position | |
|---|-----------------|----------------------|---|--------------------------|
| | Expenses | Charges for Services | Governmental Activities | Business-type Activities |
| Governmental activities: | | | | |
| General government | \$ 1,230,900 | \$ 35,182 | \$(1,162,845) | \$ (1,162,845) |
| Public safety | 3,759,489 | 294,816 | (3,462,814) | (3,462,814) |
| Highways and streets | 626,393 | - | (626,393) | (626,393) |
| Economic development | 381,764 | - | (381,764) | (381,764) |
| Culture and recreation | 520,838 | 46,840 | (473,998) | (473,998) |
| Interest on long-term debt | 92,725 | - | (92,725) | (92,725) |
| Total governmental activities | 6,612,109 | 376,838 | (6,200,539) | (6,200,539) |
| Business-type activities: | | | | |
| Water and sewer | 2,614,728 | 2,771,776 | - | 157,048 |
| Total business-type activities | 2,614,728 | 2,771,776 | - | 157,048 |
| Total primary government | 9,226,837 | 3,148,614 | (6,200,539) | (6,043,491) |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | 924,970 | 924,970 |
| Property taxes, levied for debt service | | | 309,694 | 309,694 |
| Sales taxes | | | 3,591,597 | 3,591,597 |
| Franchise taxes | | | 503,812 | 503,812 |
| Hotel occupancy taxes | | | 544,196 | 544,196 |
| Investment earnings | | | 138,233 | 160,780 |
| Miscellaneous | | | 154,996 | 154,996 |
| Transfers | | | 202,402 | - |
| Total general revenues and transfers | | | 6,369,900 | 6,190,045 |
| Change in net position | | | 169,361 | 146,554 |
| Net position, beginning | | | 22,015,866 | 30,796,412 |
| Net position, ending | | | 22,185,227 | 30,942,966 |

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

CITY OF BELLMEAD, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

| | <u>General</u> | <u>Bellmead EDC A</u> |
|--|---------------------|---------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,048,108 | \$ 1,445,906 |
| Receivables (net of allowance for uncollectibles) | 719,035 | 2,766 |
| Lease receivable | - | 880,120 |
| Due from other funds | - | - |
| Prepays | 440 | - |
| Inventories | 728 | - |
| Total assets | <u>\$ 4,768,311</u> | <u>\$ 2,328,792</u> |
| LIABILITIES | | |
| Accounts payable | \$ 307,149 | \$ 37,026 |
| Accrued liabilities | 42,749 | - |
| Due to other funds | 38,173 | 69,560 |
| Total liabilities | <u>388,071</u> | <u>106,586</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenue - property taxes | 129,672 | - |
| Unavailable revenue - court fines | 50,020 | - |
| Unavailable revenue - lease receivable | - | 880,120 |
| Total deferred inflows of resources | <u>179,692</u> | <u>880,120</u> |
| FUND BALANCES | | |
| Nonspendable: | | |
| Inventories | 728 | - |
| Prepays | 440 | - |
| Restricted for: | | |
| Public safety | 10,553 | - |
| Court security and technology | - | - |
| Tourism | - | - |
| Economic development | - | 1,342,086 |
| Capital projects | - | - |
| Debt service | - | - |
| Committed for: | | |
| Street improvements | 2,454,179 | - |
| Unassigned | 1,734,648 | - |
| Total fund balances | <u>4,200,548</u> | <u>1,342,086</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 4,768,311</u> | <u>\$ 2,328,792</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.

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable in the

Long-term liabilities (net pension liability, bonds payable, and etc.) are not due and payable in the current period and; therefore, have not been included in the fund financial statements. Also, the premium on the issuance of bonds and deferred resources related to the net pension liability are not reported in the funds.

Net position of governmental activities

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

| <u>Bellmead EDC B</u> | <u>Hotel/ Motel Tax</u> | <u>Capital Projects</u> | <u>Other Governmental</u> | <u>Total Governmental Funds</u> |
|---------------------------|-----------------------------|-----------------------------|-------------------------------|---|
| \$ 3,258,178 | \$ 1,559,622 | \$ 6,151,550 | \$ 286,421 | \$ 16,749,785 |
| 104,350 | 3,751 | 8,541 | 45,324 | 883,767 |
| - | - | - | - | 880,120 |
| 69,560 | 6,948 | 1,598 | 35,090 | 113,196 |
| - | - | - | - | 440 |
| - | - | - | - | 728 |
| <u>\$ 3,432,088</u> | <u>\$ 1,570,321</u> | <u>\$ 6,161,689</u> | <u>\$ 366,835</u> | <u>\$ 18,628,036</u> |
| \$ 2,956 | \$ 22,561 | \$ 7,667 | \$ - | \$ 377,359 |
| - | 2,666 | - | - | 45,415 |
| - | - | 3,915,824 | 3,396 | 4,026,953 |
| <u>2,956</u> | <u>25,227</u> | <u>3,923,491</u> | <u>3,396</u> | <u>4,449,727</u> |
| - | - | - | 44,224 | 173,896 |
| - | - | - | - | 50,020 |
| - | - | - | - | 880,120 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>44,224</u> | <u>1,104,036</u> |
| - | - | - | - | 728 |
| - | - | - | - | 440 |
| - | - | - | - | 10,553 |
| - | - | - | 53,286 | 53,286 |
| - | 1,545,094 | - | - | 1,545,094 |
| 3,429,132 | - | - | - | 4,771,218 |
| - | - | 2,238,198 | - | 2,238,198 |
| - | - | - | 265,929 | 265,929 |
| - | - | - | - | 2,454,179 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,734,648</u> |
| <u>3,429,132</u> | <u>1,545,094</u> | <u>2,238,198</u> | <u>319,215</u> | <u>13,074,273</u> |
| <u>\$ 3,432,088</u> | <u>\$ 1,570,321</u> | <u>\$ 6,161,689</u> | <u>\$ 366,835</u> | |
| | | | | 12,120,151 |
| | | | | 1,104,036 |
| | | | | (4,113,233) |
| | | | | <u>\$ 22,185,227</u> |

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

| | General | Bellmead EDC A |
|--|---------------------|---------------------|
| REVENUES | | |
| Taxes: | | |
| Property | \$ 927,814 | \$ - |
| Sales | 2,993,211 | - |
| Franchise | 503,812 | - |
| Hotel occupancy | - | - |
| Other | 54,713 | - |
| Licenses and permits | 35,182 | - |
| Intergovernmental | 61,630 | - |
| Rent | - | - |
| Fines and fees | 234,317 | - |
| Investment earnings | 22,900 | 50,968 |
| Miscellaneous | 76,307 | - |
| Total revenues | 4,909,886 | 50,968 |
| EXPENDITURES | | |
| Current: | | |
| General government | 1,111,229 | - |
| Public safety | 3,454,302 | - |
| Highways and streets | 1,335,898 | - |
| Economic development | - | - |
| Culture and recreation | 63,809 | - |
| Capital outlay | - | - |
| Debt service: | | |
| Principal | - | - |
| Interest | - | - |
| Total expenditures | 5,965,238 | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (1,055,352) | 50,968 |
| OTHER FINANCING SOURCES (USES) | | |
| Transfers in | 728,107 | - |
| Transfers out | - | (148,450) |
| Proceeds from sale of assets | - | 94,038 |
| Total other financing sources (uses) | 728,107 | (54,412) |
| NET CHANGE IN FUND BALANCE | (327,245) | (3,444) |
| FUND BALANCE, BEGINNING | 4,527,793 | 1,345,530 |
| FUND BALANCE, ENDING | \$ 4,200,548 | \$ 1,342,086 |

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

| <u>Bellmead EDC B</u> | <u>Hotel/ Motel Tax</u> | <u>Capital Projects</u> | <u>Other Governmental</u> | <u>Total Governmental Funds</u> |
|---------------------------|-----------------------------|-----------------------------|-------------------------------|---|
| \$ - | \$ - | \$ - | \$ 309,233 | \$ 1,237,047 |
| 598,386 | - | - | - | 3,591,597 |
| - | - | - | - | 503,812 |
| - | 544,196 | - | - | 544,196 |
| - | - | - | - | 54,713 |
| - | - | - | - | 35,182 |
| - | - | - | - | 61,630 |
| - | 46,840 | - | - | 46,840 |
| - | - | - | 7,556 | 241,873 |
| 9,315 | 5,158 | 47,987 | 1,905 | 138,233 |
| - | - | - | - | 76,307 |
| <u>607,701</u> | <u>596,194</u> | <u>47,987</u> | <u>318,694</u> | <u>6,531,430</u> |
| - | - | - | - | 1,111,229 |
| - | - | - | - | 3,454,302 |
| - | - | - | - | 1,335,898 |
| 248,266 | - | - | - | 248,266 |
| - | 381,889 | - | - | 445,698 |
| - | - | 312,334 | - | 312,334 |
| - | - | - | 200,000 | 200,000 |
| - | - | - | 105,110 | 105,110 |
| <u>248,266</u> | <u>381,889</u> | <u>312,334</u> | <u>305,110</u> | <u>7,212,837</u> |
| <u>359,435</u> | <u>214,305</u> | <u>(264,347)</u> | <u>13,584</u> | <u>(681,407)</u> |
| 135,950 | - | - | 279 | 864,336 |
| (256,000) | (90,500) | (166,984) | - | (661,934) |
| - | - | - | - | 94,038 |
| <u>(120,050)</u> | <u>(90,500)</u> | <u>(166,984)</u> | <u>279</u> | <u>296,440</u> |
| <u>239,385</u> | <u>123,805</u> | <u>(431,331)</u> | <u>13,863</u> | <u>(384,967)</u> |
| <u>3,189,747</u> | <u>1,421,289</u> | <u>2,669,529</u> | <u>305,352</u> | <u>13,459,240</u> |
| <u>\$ 3,429,132</u> | <u>\$ 1,545,094</u> | <u>\$ 2,238,198</u> | <u>\$ 319,215</u> | <u>\$ 13,074,273</u> |

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CITY OF BELLMEAD, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net change in fund balances - total governmental funds \$(384,967)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense in the current period. 502,788

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 47,637

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net assets. (94,037)

Certain pension expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource inflows/outflows related to the pension liability were amortized. (64,474)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 203,506

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (41,092)

Changes in net position of governmental activities \$ 169,361

CITY OF BELLMEAD, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2017

| | <u>Business-type Activities Enterprise Fund Water and Sewer</u> |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 4,423,854 |
| Accounts receivable (net of allowance for uncollectible): | |
| Accounts | 311,153 |
| Other | 20,581 |
| Due from other funds | 3,917,622 |
| Inventories | 5,000 |
| Restricted cash | 2,779,819 |
| Total current assets | <u>11,458,029</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Land | 38,799 |
| Buildings and improvements | 877,695 |
| Water and sewer facilities | 11,377,218 |
| Equipment | 1,583,944 |
| Construction in progress | 452,101 |
| Less: accumulated depreciation | (9,323,104) |
| Total capital assets | <u>5,006,653</u> |
| Total noncurrent assets | <u>5,006,653</u> |
| Total assets | <u>16,464,682</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows related to pension | <u>86,678</u> |
| Total deferred outflows of resources | <u>86,678</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 289,483 |
| Accrued liabilities | 5,927 |
| Customer deposits | 368,199 |
| Accrued interest | 15,244 |
| Compensated absences, current portion | 3,839 |
| Due to other funds | 3,865 |
| Revenue bond and note payable, current portion | 312,316 |
| Total current liabilities | <u>998,873</u> |
| Noncurrent liabilities: | |
| Compensated absences | 11,516 |
| Net pension liability | 57,851 |
| Revenue bond and note payable | 6,675,212 |
| Total noncurrent liabilities | <u>6,744,579</u> |
| Total liabilities | <u>7,743,452</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pension | <u>50,169</u> |
| Total deferred inflows of resources | <u>50,169</u> |
| NET POSITION | |
| Net investment in capital assets | 4,200,804 |
| Unrestricted | 4,556,935 |
| Total net position | <u>\$ 8,757,739</u> |

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

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

| | Business-type Activities <u>Enterprise Fund</u> <u>Water and Sewer</u> |
|--|---|
| OPERATING REVENUE | |
| Water sales | \$ 1,785,320 |
| Sewer charges | 904,836 |
| Water and sewer tap fees | 11,833 |
| Other | <u>69,787</u> |
| Total operating revenue | <u>2,771,776</u> |
| OPERATING EXPENSES | |
| Salaries and benefits | 520,070 |
| Materials and supplies | 812,595 |
| Contractual services | 518,019 |
| Depreciation | <u>575,163</u> |
| Total operating expenses | <u>2,425,847</u> |
| OPERATING INCOME | <u>345,929</u> |
| NON-OPERATING REVENUES (EXPENSES) | |
| Investment earnings | 22,547 |
| Interest expense | <u>(188,881)</u> |
| Total non-operating revenue (expenses) | <u>(166,334)</u> |
| NET INCOME BEFORE TRANSFERS | <u>179,595</u> |
| Transfers in | 164,527 |
| Transfers out | <u>(366,929)</u> |
| CHANGE IN NET POSITION | <u>(22,807)</u> |
| NET POSITION, BEGINNING | <u>8,780,546</u> |
| NET POSITION, ENDING | <u>\$ 8,757,739</u> |

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

CITY OF BELLMEAD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Business-type Activities <u>Enterprise Fund</u> <u>Water and Sewer</u> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers and users | \$ 2,801,377 |
| Payments to suppliers | (1,251,932) |
| Payments to employees | (513,210) |
| Net cash provided by operating activities | <u>1,036,235</u> |
| CASH FLOWS FROM NONCAPITAL RELATED FINANCING ACTIVITIES | |
| Transfers from other funds | 426,468 |
| Transfers to other funds | (366,929) |
| Net cash provided by noncapital and related financing activities | <u>59,539</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of capital assets | (358,358) |
| Principal paid on bonds and note payable | (312,045) |
| Interest paid on bonds and note payable | (193,425) |
| Net cash used by capital and related financing activities | <u>(863,828)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | <u>22,547</u> |
| Net cash provided by investing activities | <u>22,547</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | <u>254,493</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>6,949,180</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u>\$ 7,203,673</u> |
| RECONCILIATION OF OPERATING INCOME TO NET | |
| CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating income | \$ 345,929 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 575,163 |
| Change in assets, deferred outflows and inflows, and liabilities: | |
| Accounts receivable, net | 29,201 |
| Other receivables | (9,646) |
| Customer deposits | 10,046 |
| Accounts payable | 78,682 |
| Deferred outflows of resources | 30,695 |
| Deferred inflows of resources | 3,929 |
| Net pension liability | (28,383) |
| Compensated absences | 2,431 |
| Other liabilities | (1,812) |
| Net cash provided by operating activities | <u>\$ 1,036,235</u> |

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

CITY OF BELLMEAD, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bellmead, Texas (the “City”) is a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: general government, public safety (police and fire), highways and streets, economic development, and culture and recreation.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City’s reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and are appropriately presented as funds of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the City.

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. The following was determined:

The Bellmead Economic Development Corporation Type A (EDC A) and Bellmead Economic Development Corporation Type B (EDC B) are blended component units and are reported within the City’s primary government. The Corporations are responsible for certain economic development benefiting all citizens of the government and are financed by a portion of sales tax revenue and are governed by a board comprised of City Council members and citizens of the community.

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 units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes 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 revenue are reported instead as *general revenue*.

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. Revenue is 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 revenue 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*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue 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:

General Fund – The General Fund is the City’s primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

Bellmead Economic Development Corporation – The Bellmead Economic Development Corporation Types A and B are blended component units which are reported as Special Revenue Funds that account for sales tax revenue that is to be used for economic development benefiting all citizens of the City.

Hotel/Motel Tax Fund – The Hotel/Motel Tax Fund accounts for the receipts and allocation of the City’s occupancy tax imposed on the rental of hotel-motel rooms. These funds are used to promote tourism and related activities within the City.

Capital Projects Fund – The Capital Projects Fund accounts for the acquisition or construction of capital assets.

The City reports the following major proprietary fund:

Water and Sewer Fund – The Water and Sewer Fund accounts for the activities of the water distribution system, the sewage treatment plant, sewage pumping stations and collection systems.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities and Net Position or Equity

Deposits and Investments

For purposes of the statement of cash flows, the City considers all highly liquid investments (investments with original maturities less than 90 days, including restricted assets) to be cash equivalents.

State statutes authorize the City to invest in obligations of the United States or its agencies and instrumentalities and state or local governments, commercial paper, guaranteed investment contracts, repurchase agreements, and certain governmental investment pools. The City's local investment policy limits the City to invest in obligations of the United States or its agencies and instrumentalities, certificates of deposit, money market mutual funds, and local government investment pools.

Investments are reported at fair value. The governmental investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied each October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The McLennan County Tax Assessor/Collector bills and collects the City's property taxes. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenue.

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2017, the City had a tax rate of \$0.303761 per \$100 of which \$0.22799 was allocated for general government and \$0.075771 was allocated for payment of principal and interest on general long-term debt.

Inventories and Prepaid Items

All inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include land, buildings and improvements, 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. The City has elected to report general infrastructure assets prospectively from October 1, 2003, as permitted by GASB Statement No. 34. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 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, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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

| Assets | Years |
|----------------------------|---------|
| Buildings and improvements | 5 to 30 |
| Water and sewer facilities | 5 to 30 |
| Equipment | 3 to 20 |
| Infrastructure | 40 |

Restricted Assets

Restricted cash accounts in the Water and Sewer Fund of \$2,779,819 represents proceeds from the 2008 tax and revenue certificates of obligation and 2016 Certificate of Obligation that have not been spent but have been restricted to purchase water and sewer improvements in the future. Also included in restricted cash is money held by the City of Waco on behalf of the City of Bellmead for the operations of the Waco Metropolitan Area Regional Sewer System.

Long-term Debt

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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the period of issuance.

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.

Compensated Absences

Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. In the governmental fund level financial statements, only matured compensated absences payable to currently terminated employees are reported.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in 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.

Net Position

Net Position represents the difference between assets, deferred inflows/outflows 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 improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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.

Fund Balance Flow Assumption

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 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 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.

Deferred Outflows/Inflows of Resources

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

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
- Difference in expected and actual pension experience – This difference is deferred and recognized over the average remaining lives of all member determined as of the measurement date

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. One of these items arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources that require deferral: property taxes, municipal court fines and lease receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is only recorded in the full accrual basis of accounting and results from the difference between expected and actual pension experience. This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

Estimates

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

2. DEPOSITS AND INVESTMENTS

A summary of the City's cash and cash equivalents follows:

| | |
|--|----------------------|
| Cash and certificates of deposit in bank | \$ 23,767,619 |
| Government investment pools: | |
| TexPool | 116,845 |
| TexStar | <u>68,994</u> |
| Total cash and cash equivalents | <u>\$ 23,953,458</u> |

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in shorter-term certificates of deposit, securities, money market mutual funds, or government investment pools, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to invest in securities maturing more than three years from the date of purchase. At September 30, 2017, the City's only investment is in external investment pools. The weighted average maturity of Texas Local Government Investment Pool (TexPool) and Texas Short-term Asset Reserve Fund (TexStar) as of September 30, 2017, is less than 60 days.

Credit Risk. The City's investment policy limits investments in governmental investment pools and money market mutual funds to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2017, the City's investment in TexPool and TexStar was rated AAA by Standard & Poor's.

TexPool is a public funds investment pool created pursuant to the Interlocal Cooperation Act of the State of Texas. The City has delegated the authority to hold legal title to the pool as custodians and to make investment purchases with the City's funds. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the state comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

TexStar is a Texas public funds investment pool that is co-administered by J. P. Morgan Chase and First Southwest Asset Management, Inc. TexStar is run by a five-member board comprised of three representatives of eligible governmental entities and one member designated by each of the co-administrators. TexStar currently offers a "Cash Reserve Fund" which will invest only in authorized investments under the Public Funds Investment Act with weighted average maturities which cannot exceed 60 days.

TexPool and TexStar use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and TexStar is the same as the value of TexPool shares and TexStar shares. They have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

3. RECEIVABLES

Receivables as of September 30, 2017, for the City’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Bellmead Economic Development Corporation - A | Bellmead Economic Development Corporation - B | Hotel Motel Tax | Capital Projects | Other Nonmajor | Water and Sewer | Total |
|------------------------------------|------------|--|--|-----------------------|---------------------|-------------------|--------------------|--------------|
| Receivables: | | | | | | | | |
| Property taxes | \$ 176,888 | \$ - | \$ - | \$ - | \$ - | \$ 60,432 | \$ - | \$ 237,320 |
| Sales taxes | 508,796 | - | 101,759 | - | - | - | - | 610,555 |
| Accounts | - | - | - | - | - | - | 387,028 | 387,028 |
| Court Fines | 250,103 | - | - | - | - | - | - | 250,103 |
| Lease | - | 880,120 | - | - | - | - | - | 880,120 |
| Other | 27,553 | 2,766 | 2,591 | 3,751 | 8,541 | - | 20,581 | 65,783 |
| Gross receivables | 963,340 | 882,886 | 104,350 | 3,751 | 8,541 | 60,432 | 407,609 | 2,430,909 |
| Less: allowance for uncollectibles | (244,305) | - | - | - | - | (15,108) | (75,875) | (335,288) |
| Net total receivables | \$ 719,035 | \$ 882,886 | \$ 104,350 | \$ 3,751 | \$ 8,541 | \$ 45,324 | \$ 331,734 | \$ 2,095,621 |

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the “District”). The District is required under the Property Tax Code to assess all property within the District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the District must be reviewed every four years.

The City’s property tax is levied each October 1 on assessed value listed as of the prior January 1 for all real and business personal property located in the City. The new assessed value upon which the fiscal 2017 levy was based was \$407,683,002.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2017, were 96.7 % of the tax levy.

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payable balances at September 30, 2017, are as follows:

| Fund | Receivable | Payable |
|------------------|--------------|--------------|
| General | \$ - | \$ 38,173 |
| Bellmead EDC - A | - | 69,560 |
| Bellmead EDC - B | 69,560 | - |
| Hotel/Motel Tax | 6,948 | - |
| Capital Projects | 1,598 | 3,915,824 |
| Nonmajor | 35,090 | 3,396 |
| Water and sewer | 3,917,622 | 3,865 |
| Totals | \$ 4,030,818 | \$ 4,030,818 |

An interfund balance of \$3,917,622 resulted when the City issued bonds in fiscal year 2014 to finance a new sewer interceptor and water well to improve the City's utility system. The bond proceeds were reported in the Capital Projects Fund and the long-term liability was reported in the Water and Sewer Fund, which resulted in an interfund balance. As cost are incurred for the project, the bond proceeds are used to fund the project and the capital assets are reported in the Water and Sewer Fund. The remainder of the balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers at September 30, 2017, are as follows:

| | General | Bellmead EDC - B | Nonmajor Funds | Water/Sewer | Total |
|------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
| Transfers out: | | | | | |
| Bellmead EDC - A | \$ 12,500 | \$ 135,950 | \$ - | \$ - | \$ 148,450 |
| Bellmead EDC - B | 256,000 | - | - | - | 256,000 |
| Hotel/Motel Tax | 90,500 | - | - | - | 90,500 |
| Capital Projects | 2,457 | - | - | 164,527 | 166,984 |
| Water/Sewer | <u>366,650</u> | <u>-</u> | <u>279</u> | <u>-</u> | <u>366,929</u> |
| Total transfers | <u>\$ 728,107</u> | <u>\$ 135,950</u> | <u>\$ 279</u> | <u>\$ 164,527</u> | <u>\$ 1,028,863</u> |

Transfers are used to 1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the Debt Service Fund to establish mandatory reserve accounts, 3) move unrestricted General Fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or match funds for various grant programs, and 4) a payment in lieu of taxes to the General Fund.

5. LEASE RECEIVABLES

The Bellmead Economic Development Corporation (BEDC) constructed on a building which is being utilized as a plant and office space by Texas Machine & Tool International, LLC (TMI). BEDC has entered into a 10-year promissory note with TMTI to purchase the property in accordance with the following schedule based on the remainder of the previous lease agreement of \$1,093,146.

The promissory note began on July 1, 2015. The payments, including interest at 4.5% are as follows:

| Year Ended September 30, | Principal | Interest |
|-----------------------------|-------------------|-------------------|
| 2018 | \$ 98,357 | \$ 37,593 |
| 2019 | 102,876 | 33,075 |
| 2020 | 107,602 | 28,349 |
| 2021 | 112,545 | 23,405 |
| 2022 | 117,275 | 23,405 |
| 2023-2026 | <u>341,465</u> | <u>22,825</u> |
| | <u>\$ 880,120</u> | <u>\$ 168,652</u> |

6. CAPITAL ASSETS

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

| | Balance October 1, 2016 | Additions | Deletions | Balance September 30, 2017 |
|---|-------------------------------|---------------------|---------------------|----------------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,771,193 | \$ - | \$ - | \$ 2,771,193 |
| Construction in progress | <u>761,622</u> | <u>944,680</u> | <u>(611,626)</u> | <u>1,094,676</u> |
| Total capital assets not being depreciated | <u>3,532,815</u> | <u>944,680</u> | <u>(611,626)</u> | <u>3,865,869</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 6,659,032 | 612,439 | - | 7,271,471 |
| Infrastructure | 3,191,770 | - | - | 3,191,770 |
| Equipment | <u>6,120,408</u> | <u>168,535</u> | <u>-</u> | <u>6,288,943</u> |
| Total capital assets being depreciated | <u>15,971,210</u> | <u>780,974</u> | <u>-</u> | <u>16,752,184</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (2,496,035) | (230,037) | - | (2,726,072) |
| Infrastructure | (565,713) | (99,744) | - | (665,457) |
| Equipment | <u>(4,824,914)</u> | <u>(281,459)</u> | <u>-</u> | <u>(5,106,373)</u> |
| Total accumulated depreciation | <u>(7,886,662)</u> | <u>(611,240)</u> | <u>-</u> | <u>(8,497,902)</u> |
| Total capital assets being depreciated, net | <u>8,084,548</u> | <u>169,734</u> | <u>-</u> | <u>8,254,282</u> |
| Governmental activities capital assets, net | <u>\$ 11,617,363</u> | <u>\$ 1,114,414</u> | <u>\$(611,626)</u> | <u>\$ 12,120,151</u> |

| | Balance October 1, 2016 | Additions | Deletions | Balance September 30, 2017 |
|--|-------------------------------|---------------------|---------------------|----------------------------------|
| Business-type activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 38,799 | \$ - | \$ - | \$ 38,799 |
| Construction in progress | 263,895 | 236,241 | (48,035) | 452,101 |
| Total capital assets not being depreciated | <u>302,694</u> | <u>236,241</u> | <u>(48,035)</u> | <u>490,900</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 877,695 | - | - | 877,695 |
| Water and sewer facilities | 9,872,897 | - | - | 9,872,897 |
| WMARSS facilities | 2,410,042 | 93,490 | (163,307) | 2,340,225 |
| Equipment | 1,507,284 | 76,660 | - | 1,583,944 |
| Total capital assets being depreciated | <u>14,667,918</u> | <u>170,150</u> | <u>(163,307)</u> | <u>14,674,761</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (163,593) | (43,545) | - | (207,138) |
| Water and sewer facilities | (7,410,955) | (382,377) | - | (7,793,332) |
| WMARSS facilities | (745,957) | (89,947) | - | (835,904) |
| Equipment | (1,263,340) | (59,294) | - | (1,322,634) |
| Total accumulated depreciation | <u>(9,583,845)</u> | <u>(575,163)</u> | <u>-</u> | <u>(10,159,008)</u> |
| Total capital assets being depreciated, net | <u>5,084,073</u> | <u>(405,013)</u> | <u>(163,307)</u> | <u>4,515,753</u> |
| Business-type activities capital assets, net | <u>\$ 5,386,767</u> | <u>\$(168,772)</u> | <u>\$(211,342)</u> | <u>\$ 5,006,653</u> |

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

| | |
|---|-------------------|
| Governmental activities | |
| General government | \$ 93,119 |
| Public safety | 228,270 |
| Highways and streets | 84,943 |
| Economic development | 133,498 |
| Culture and recreation | 71,410 |
| Total depreciation - governmental activities | <u>\$ 611,240</u> |
| Business-type activities | |
| Water and sewer | \$ 575,163 |
| Total depreciation - business-type activities | <u>\$ 575,163</u> |

7. LONG-TERM DEBT

Long-term debt consists of bonded indebtedness, note payable, and compensated absences. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and pledges income derived from the acquired or constructed assets to pay debt service. General obligation bonds have been issued for the business-type activities. For the governmental activities, compensated absences are generally liquidated by the General Fund.

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

| | Balance October 1, 2016 | Additions | Retirements | Balance September 30, 2017 | Due Within One Year |
|---------------------------------|-------------------------------|-------------------|---------------------|----------------------------------|------------------------|
| Governmental activities | | | | | |
| Certificates of obligation | \$ 3,710,000 | \$ - | \$(150,000) | \$ 3,560,000 | \$ 200,000 |
| Tax anticipation notes | 50,000 | - | (50,000) | - | - |
| Net pension liability | 676,221 | 97,217 | (277,689) | 495,749 | - |
| Compensated absences | 260,782 | 126,612 | (76,641) | 310,753 | 77,688 |
| Premium on debt | <u>63,095</u> | <u>-</u> | <u>(3,506)</u> | <u>59,589</u> | <u>-</u> |
| | <u>\$ 4,760,098</u> | <u>\$ 223,829</u> | <u>\$(557,836)</u> | <u>\$ 4,426,091</u> | <u>\$ 277,688</u> |
| Business-type activities | | | | | |
| General obligation bonds | \$ 175,000 | \$ - | \$(175,000) | \$ - | \$ - |
| Certificates of obligation | 6,870,000 | - | (125,000) | 6,745,000 | 305,000 |
| Note payable - COW | 108,765 | - | (12,045) | 96,720 | 12,316 |
| Net pension liability | 86,233 | 4,022 | (32,404) | 57,851 | - |
| Compensated absences | 12,924 | 13,260 | (10,829) | 15,355 | 3,839 |
| Premium on debt | <u>153,899</u> | <u>-</u> | <u>(8,091)</u> | <u>145,808</u> | <u>-</u> |
| | <u>\$ 7,406,821</u> | <u>\$ 17,282</u> | <u>\$(363,369)</u> | <u>\$ 7,060,734</u> | <u>\$ 321,155</u> |

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

\$4,000,000 Series 2014 Combination Tax and Limited Pledge
Revenue Certificates of Obligation, due in annual installments of
\$140,000 to \$265,000 with an interest rate of 2.00% to 3.75%,
maturing in 2034. \$ 3,560,000

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

| Year Ended September 30, | Certificates of Obligation | |
|-----------------------------|----------------------------|---------------------|
| | Principal | Interest |
| 2018 | \$ 200,000 | \$ 100,656 |
| 2019 | 170,000 | 96,956 |
| 2020 | 175,000 | 93,506 |
| 2021 | 180,000 | 89,731 |
| 2022 | 185,000 | 85,625 |
| 2023-2027 | 985,000 | 356,309 |
| 2028-2032 | 1,145,000 | 197,100 |
| 2033-2034 | <u>520,000</u> | <u>19,688</u> |
| | <u>\$ 3,560,000</u> | <u>\$ 1,039,571</u> |

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

| | |
|---|---------------------|
| Note payable to the City of Waco, Texas, due in annual installments of \$15,621, with an interest rate of 3.65%, maturing in 2024. | \$ <u>96,720</u> |
| \$4,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation, due in annual installments of \$30,000 to \$330,000 with an interest rate of 2.00% to 3.75%, maturing in 2034. | \$ <u>4,440,000</u> |
| \$2,400,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation, due in annual installments of \$95,000 to \$150,000 with an interest rate of 2.00% to 3.00%, maturing in 2036. | \$ <u>2,305,000</u> |

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

| Year Ended September 30, | Certificates of Obligation | | Notes Payable - COW | |
|-----------------------------|----------------------------|---------------------|---------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 305,000 | \$ 187,238 | \$ 12,316 | \$ 3,305 |
| 2019 | 315,000 | 181,038 | 12,776 | 2,845 |
| 2020 | 320,000 | 174,688 | 13,283 | 2,369 |
| 2021 | 330,000 | 167,906 | 13,777 | 1,875 |
| 2022 | 335,000 | 160,688 | 14,257 | 1,364 |
| 2023-2027 | 1,805,000 | 674,525 | 30,311 | 1,111 |
| 2028-2032 | 2,100,000 | 385,649 | - | - |
| 2033-2035 | 1,235,000 | 60,188 | - | - |
| | <u>\$ 6,745,000</u> | <u>\$ 1,991,920</u> | <u>\$ 96,720</u> | <u>\$ 12,869</u> |

In August 2014, the City issued \$8.5 million in certificates of obligation to finance \$4.5 million in Utility Fund capital improvement projects and \$4 million in General Fund capital improvement projects. This issuance has been done without a current increase in the tax rate.

In March 2016, the City issued \$2.4 million in certificates of obligation to finance \$2.4 million in Utility Fund capital improvement projects.

8. UNDIVIDED INTEREST WACO METROPOLITAN AREA REGIONAL SEWER SYSTEM

During 2004, the City entered into an agreement with four other participating cities to acquire the facilities and operations of the Waco Metropolitan Area Regional Sewer System (the “System”) from Brazos River Authority (the “Authority”). Prior to the acquisition, the cities were “tenants in common” of the System owned by the Authority, and funded the System through payments to the Authority based on the amount of wastewater treated.

The City’s initial purchase included a 5.73% undivided interest in the System; however, the City subsequently sold portions of its undivided interest to other cities leaving it with a 5.707% undivided interest in the System. The City’s undivided interest in the System as of September 30, 2017 was 4.964% as a result of certain capacity expansion improvements completed during 2012.

The City of Waco, Texas assisted four of the participating cities in financing their initial investments. During 2004, the City of Waco, Texas’ wastewater fund advanced \$1,849,058 to the four participating cities at an interest rate of 3.65% to be repaid in annual installments through February 2024. As of September 30, 2017, \$96,721 was payable to the City of Waco by the City of Bellmead.

Under the interlocal agreement for the System, a board was created consisting of the city managers from each of the seven participating cities. The operation and administration of the System is subject to joint control by the cities through the board; however, a separate legal entity was not created. The agreement allows the cities to pool resources and share the costs, risks, and rewards of providing services. Further, each city retains an ongoing financial interest and ongoing financial responsibility in the operations of the System. The City has reported its share of assets, liabilities, net position, revenues and expenses that are associated with this joint activity in its water and sewer fund as follows:

| | | |
|--------------------------------------|-----|------------------|
| Current assets | \$ | 513,963 |
| Capital assets | | 1,504,321 |
| Long-term liabilities | (| <u>96,721)</u> |
| Net position | \$ | <u>1,921,563</u> |
| Operating expenses | \$(| 446,249) |
| Nonoperating revenues | | <u>27,667</u> |
| Loss before contributions | (| 418,582) |
| Capital contributions - current year | | <u>498,444</u> |
| Change in net position | \$ | <u>79,862</u> |

9. EMPLOYEE BENEFIT 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 agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.org.

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

Beginning in 1998, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1998, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

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

| | |
|-----------------------------------|---|
| Employee deposit rate | 6% |
| Matching ratio (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility | 25 years to any age, 5 years at age 60 and above |
| Updated service credit | 100% Repeating |
| Annuity increase to retirees | 70% of CPI, repeating |

The City does participate in Social Security.

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 | 28 |
| Inactive employees entitled to but not yet receiving benefits | 55 |
| Active employees | <u>76</u> |
| | <u><u>159</u></u> |

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions 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 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.07% and 8.99% in calendar years 2016 and 2017, respectively. The City’s contributions to TMRS for the year ended September 30, 2017, were \$316,465, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions

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

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

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

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 the 2009 through 2011, and the 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 an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

Discount Rate

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

Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|--|-----------------------------------|---------------------------------------|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Net Position (a) - (b) |
| Balance at 12/31/2015 | \$ 12,060,237 | \$ 11,297,782 | \$ 762,455 |
| Changes for the year: | | | |
| Service cost | 487,147 | - | 487,147 |
| Interest | 809,001 | - | 809,001 |
| Difference between expected and actual experience | (233,707) | - | (233,707) |
| Contributions - employer | - | 310,177 | (310,177) |
| Contributions - employee | - | 206,710 | (206,710) |
| Net investment income | - | 763,497 | (763,497) |
| Benefit payments, including refunds of employee contributions | (637,232) | (637,232) | - |
| Administrative expense | - | (8,623) | 8,623 |
| Other changes | - | (465) | 465 |
| Net changes | <u>425,209</u> | <u>634,064</u> | <u>(208,855)</u> |
| Balance at 12/31/2016 | <u>\$ 12,485,446</u> | <u>\$ 11,931,846</u> | <u>\$ 553,600</u> |

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|--|--------------------------|--|
| City's net pension liability | \$ 2,408,246 | \$ 553,600 | \$(947,762) |

Pension Plan Fiduciary Net Position

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

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 \$387,264. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$ 16,028 | \$ 480,089 |
| Changes in actuarial assumptions | 53,725 | - |
| Difference between projected and actual investment earnings | 518,471 | - |
| Contributions subsequent to the measurement date | <u>241,232</u> | <u>-</u> |
| Total | <u>\$ 829,456</u> | <u>\$ 480,089</u> |

\$241,232 reported as deferred outflows of resources related to pension 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 of resources related to pensions will be recognized in pension expenses as follows:

| Year Ending September 30, | |
|------------------------------|-----------|
| 2018 | \$ 51,337 |
| 2019 | 43,910 |
| 2020 | 41,316 |
| 2021 | (28,428) |

10. OTHER POSTEMPLOYMENT BENEFITS

Supplemental Death Benefits Fund

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

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

Contributions

The City’s contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$7,040, \$6,844, and \$6,676, respectively, which equaled the required contributions each year.

11. COMMITMENTS AND CONTINGENCIES

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

There are other claims and pending actions incident to normal operations of the City. In the opinion of the City management based on consultation with the City's attorney, the City's potential liability in these matters will not have a material impact on the financial statements.

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts/theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in the State of Texas to form the Texas Municipal League Intergovernmental Risk Pool (the "Pool"), a public entity risk pool currently operating as a common risk management and insurance program for liability, property and workers' compensation coverages.

The City pays a quarterly contribution to the Pool for its insurance coverage. The agreement for formation of the Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754-5128.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|---------------------|---------------------|---------------------|----------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes: | | | | |
| Property | \$ 918,000 | \$ 918,000 | \$ 927,814 | \$ 9,814 |
| Sales | 2,820,000 | 2,820,000 | 2,993,211 | 173,211 |
| Franchise | 521,500 | 521,500 | 503,812 | (17,688) |
| Other | 55,000 | 55,000 | 54,713 | (287) |
| Licenses and permits | 39,500 | 39,500 | 35,182 | (4,318) |
| Intergovernmental | 154,716 | 154,716 | 61,630 | (93,086) |
| Fines and fees | 355,000 | 355,000 | 234,317 | (120,683) |
| Investment earnings | 16,000 | 16,000 | 22,900 | 6,900 |
| Miscellaneous | <u>64,515</u> | <u>64,515</u> | <u>76,307</u> | <u>11,792</u> |
| Total revenue | <u>4,944,231</u> | <u>4,944,231</u> | <u>4,909,886</u> | <u>(34,345)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,124,689 | 1,124,689 | 1,111,229 | 13,460 |
| Public safety | 3,433,809 | 3,433,809 | 3,454,302 | (20,493) |
| Highways and streets | 1,002,016 | 1,691,846 | 1,335,898 | 355,948 |
| Culture and recreation | <u>79,716</u> | <u>79,716</u> | <u>63,809</u> | <u>15,907</u> |
| Total expenditures | <u>5,640,230</u> | <u>6,330,060</u> | <u>5,965,238</u> | <u>364,822</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(695,999)</u> | <u>(1,385,829)</u> | <u>(1,055,352)</u> | <u>330,477</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>728,107</u> | <u>728,107</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>728,107</u> | <u>728,107</u> |
| NET CHANGE IN FUND BALANCE | <u>(695,999)</u> | <u>(1,385,829)</u> | <u>(327,245)</u> | <u>1,058,584</u> |
| FUND BALANCE, BEGINNING | <u>4,527,793</u> | <u>4,527,793</u> | <u>4,527,793</u> | <u>-</u> |
| FUND BALANCE, ENDING | <u>\$ 3,831,794</u> | <u>\$ 3,141,964</u> | <u>\$ 4,200,548</u> | <u>\$ 1,058,584</u> |

CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BELLMEAD ECONOMIC DEVELOPMENT CORPORATION - A
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|---------------------|---------------------|---------------------|----------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Investment earnings | \$ 96,000 | \$ 96,000 | \$ 50,968 | \$(45,032) |
| Miscellaneous | <u>42,000</u> | <u>42,000</u> | <u>-</u> | <u>(42,000)</u> |
| Total revenue | <u>138,000</u> | <u>138,000</u> | <u>50,968</u> | <u>(87,032)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Economic development | <u>42,000</u> | <u>42,000</u> | <u>-</u> | <u>42,000</u> |
| Total expenditures | <u>42,000</u> | <u>42,000</u> | <u>-</u> | <u>42,000</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>96,000</u> | <u>96,000</u> | <u>50,968</u> | <u>(45,032)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (148,200) | (148,200) | (148,450) | (250) |
| Proceeds from sale of assets | <u>42,200</u> | <u>42,200</u> | <u>94,038</u> | <u>51,838</u> |
| Total other financing sources (uses) | <u>(106,000)</u> | <u>(106,000)</u> | <u>(54,412)</u> | <u>51,588</u> |
| NET CHANGE IN FUND BALANCE | <u>(10,000)</u> | <u>(10,000)</u> | <u>(3,444)</u> | <u>6,556</u> |
| FUND BALANCE, BEGINNING | <u>1,345,530</u> | <u>1,345,530</u> | <u>1,345,530</u> | <u>-</u> |
| FUND BALANCE, ENDING | <u>\$ 1,335,530</u> | <u>\$ 1,335,530</u> | <u>\$ 1,342,086</u> | <u>\$ 6,556</u> |

CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BELLMEAD ECONOMIC DEVELOPMENT CORPORATION - B
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|---------------------|---------------------|---------------------|----------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Sales taxes | \$ 570,000 | \$ 570,000 | \$ 598,386 | \$ 28,386 |
| Investment earnings | <u>2,500</u> | <u>2,500</u> | <u>9,315</u> | <u>6,815</u> |
| Total revenue | <u>572,500</u> | <u>572,500</u> | <u>607,701</u> | <u>35,201</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Economic development | <u>558,500</u> | <u>558,500</u> | <u>248,266</u> | <u>310,234</u> |
| Total expenditures | <u>558,500</u> | <u>558,500</u> | <u>248,266</u> | <u>310,234</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>14,000</u> | <u>14,000</u> | <u>359,435</u> | <u>345,435</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 135,700 | 135,700 | 135,950 | 250 |
| Transfers out | <u>-</u> | <u>-</u> | <u>(256,000)</u> | <u>(256,000)</u> |
| Total other financing sources (uses) | <u>135,700</u> | <u>135,700</u> | <u>(120,050)</u> | <u>(255,750)</u> |
| NET CHANGE IN FUND BALANCE | <u>149,700</u> | <u>149,700</u> | <u>239,385</u> | <u>89,685</u> |
| FUND BALANCE, BEGINNING | <u>3,189,747</u> | <u>3,189,747</u> | <u>3,189,747</u> | <u>-</u> |
| FUND BALANCE, ENDING | <u>\$ 3,339,447</u> | <u>\$ 3,339,447</u> | <u>\$ 3,429,132</u> | <u>\$ 89,685</u> |

CITY OF BELLMEAD, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

HOTEL/MOTEL TAX FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|------------------|--------------|-------------------|----------------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Hotel occupancy tax | \$ 499,900 | \$ 499,900 | \$ 544,196 | \$ 44,296 |
| Rent | 46,000 | 46,000 | 46,840 | 840 |
| Investment earnings | 2,000 | 2,000 | 5,158 | 3,158 |
| Total revenue | 547,900 | 547,900 | 596,194 | 48,294 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and recreation | 459,224 | 459,224 | 381,889 | 77,335 |
| Capital outlay | 73,000 | 73,000 | - | 73,000 |
| Total expenditures | 532,224 | 532,224 | 381,889 | 150,335 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 15,676 | 15,676 | 214,305 | 198,629 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | - | - | (90,500) | (90,500) |
| Total other financing sources (uses) | - | - | (90,500) | (90,500) |
| NET CHANGE IN FUND BALANCE | 15,676 | 15,676 | 123,805 | 108,129 |
| FUND BALANCE, BEGINNING | 1,421,289 | 1,421,289 | 1,421,289 | - |
| FUND BALANCE, ENDING | \$ 1,436,965 | \$ 1,436,965 | \$ 1,545,094 | \$ 108,129 |

CITY OF BELLMEAD, TEXAS

NOTES TO BUDGETARY SCHEDULES

SEPTEMBER 30, 2017

BUDGETARY INFORMATION - The City follows these procedures annually in establishing the budgetary data reflected in the budgetary comparison schedules:

1. Prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1st. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The City Manager has the authority to transfer appropriations within departmental accounts. The City Council, however, must approve any interdepartmental transfer of unencumbered appropriation balances or portions thereof as well as any increases in fund appropriations. At the end of the fiscal year, all appropriations lapse.
5. Annual budgets are adopted for the General Fund Bellmead Economic Development Corporation Funds A and B and Hotel/Motel Tax Fund. These budgets are adopted on a basis consistent with generally accepted accounting principles ("GAAP"). There are no legally mandated budgetary constraints for the proprietary funds, however a budget is adopted for the proprietary fund annually as a management tool and for purposes of planning revenue bond repayment in accordance with bond covenants.
6. The budgetary data presented has not been amended from the original budget by the City Council. There were no significant supplemental appropriations necessary during the year.
7. Expenditures exceeded appropriations in the General Fund. Public Safety expenditures exceeded appropriations in the amount of \$19,275. This was mainly attributable to personnel shortages within the police and fire departments resulting in overtime pay to go over budget.

CITY OF BELLMEAD, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

| Plan Year | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|-----------------------------|-----------------------------|-----------------------------|
| A. Total pension liability | | | |
| Service Cost | \$ 389,742 | \$ 458,188 | \$ 487,147 |
| Interest (on the Total Pension Liability) | 767,022 | 818,762 | 809,001 |
| Difference between expected and actual experience | 51,209 | (519,945) | (233,707) |
| Change of assumptions | - | 93,818 | - |
| Benefit payments, including refunds of employee contributions | <u>(489,931)</u> | <u>(516,186)</u> | <u>(637,232)</u> |
| Net change in total pension liability | 718,042 | 334,637 | 425,209 |
| Total pension liability - beginning | <u>11,007,558</u> | <u>11,725,600</u> | <u>12,060,237</u> |
| Total pension liability - ending (a) | <u><u>\$ 11,725,600</u></u> | <u><u>\$ 12,060,237</u></u> | <u><u>\$ 12,485,446</u></u> |
| B. Plan fiduciary net position | | | |
| Contributions - employer | \$ 262,945 | \$ 309,670 | \$ 310,177 |
| Contributions - employee | 195,254 | 204,853 | 206,710 |
| Net investment income | 613,170 | 16,664 | 763,497 |
| Benefit payments, including refunds of employee contributions | (489,931) | (516,186) | (637,232) |
| Administrative expenses | (6,402) | (10,150) | (8,623) |
| Other | <u>(526)</u> | <u>(502)</u> | <u>(465)</u> |
| Net change in plan fiduciary net position | 574,510 | 4,349 | 634,064 |
| Plan fiduciary net position - beginning | <u>10,718,923</u> | <u>11,293,433</u> | <u>11,297,782</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 11,293,433</u></u> | <u><u>\$ 11,297,782</u></u> | <u><u>\$ 11,931,846</u></u> |
| C. Net pension liability - ending (a) - (b) | <u><u>\$ 432,167</u></u> | <u><u>\$ 762,455</u></u> | <u><u>\$ 553,600</u></u> |
| D. Plan fiduciary net position as a percentage of total pension liability | 96.31% | 93.68% | 95.57% |
| E. Covered employee payroll | \$ 3,254,228 | \$ 3,414,216 | \$ 3,445,170 |
| F. Net position liability as a percentage of covered employee payroll | 13.28% | 22.33% | 16.07% |

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

CITY OF BELLMEAD, TEXAS

SCHEDULE OF CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

| Fiscal Year | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Actuarial determined contribution | \$ 260,868 | \$ 297,841 | \$ 320,484 | \$ 316,465 |
| Contributions in relation to the actuarially determined contribution | <u>260,868</u> | <u>297,841</u> | <u>320,484</u> | <u>316,465</u> |
| Contribution deficiency (excess) | - | - | - | - |
| Covered employee payroll | 3,192,687 | 3,383,497 | 3,552,338 | 3,520,190 |
| Contributions as a percentage of covered employee payroll | 8.17% | 8.80% | 9.02% | 8.99% |

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 29 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 2.50% |
| Salary Increases | 3.50% to 10.5% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014. |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB. |

Other Information There were no benefit changes during the year.

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COMBINING STATEMENTS

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CITY OF BELLMEAD, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

| | <u>Court Security and Technology</u> | <u>Debt Service</u> | <u>Total Nonmajor Governmental Funds</u> |
|--|--|-------------------------|--|
| ASSETS | | | |
| Cash and cash equivalents | \$ 22,061 | \$ 264,360 | \$ 286,421 |
| Receivables (net of allowance for uncollectibles) | - | 45,324 | 45,324 |
| Due from other funds | <u>31,225</u> | <u>3,865</u> | <u>35,090</u> |
| Total assets | <u>\$ 53,286</u> | <u>\$ 313,549</u> | <u>\$ 366,835</u> |
| LIABILITIES | | | |
| Due to other funds | <u>\$ -</u> | <u>\$ 3,396</u> | <u>\$ 3,396</u> |
| Total liabilities | <u>-</u> | <u>3,396</u> | <u>3,396</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | <u>-</u> | <u>44,224</u> | <u>44,224</u> |
| Total deferred inflows of resources | <u>-</u> | <u>44,224</u> | <u>44,224</u> |
| FUND BALANCES | | | |
| Restricted for: | | | |
| Court security and technology | 53,286 | - | 53,286 |
| Debt service | <u>-</u> | <u>265,929</u> | <u>265,929</u> |
| Total fund balances | <u>53,286</u> | <u>265,929</u> | <u>319,215</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 53,286</u> | <u>\$ 313,549</u> | <u>\$ 366,835</u> |

CITY OF BELLMEAD, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Court Security and Technology | Debt Service | Total Nonmajor Governmental Funds |
|--|-------------------------------------|-------------------|--|
| | <u> </u> | <u> </u> | <u> </u> |
| REVENUES | | | |
| Taxes: | | | |
| Property | \$ - | \$ 309,233 | \$ 309,233 |
| Fines and fees | 7,556 | - | 7,556 |
| Investment earnings | <u>-</u> | <u>1,905</u> | <u>1,905</u> |
| Total revenues | <u>7,556</u> | <u>311,138</u> | <u>318,694</u> |
| EXPENDITURES | | | |
| Debt service: | | | |
| Principal | - | 200,000 | 200,000 |
| Interest and other charges | <u>-</u> | <u>105,110</u> | <u>105,110</u> |
| Total expenditures | <u>-</u> | <u>305,110</u> | <u>305,110</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>7,556</u> | <u>6,028</u> | <u>13,584</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | <u>-</u> | <u>279</u> | <u>279</u> |
| Total other financing sources (uses) | <u>-</u> | <u>279</u> | <u>279</u> |
| NET CHANGE IN FUND BALANCE | <u>7,556</u> | <u>6,307</u> | <u>13,863</u> |
| FUND BALANCE, BEGINNING | <u>45,730</u> | <u>259,622</u> | <u>305,352</u> |
| FUND BALANCE, ENDING | <u>\$ 53,286</u> | <u>\$ 265,929</u> | <u>\$ 319,215</u> |



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Honorable Mayor
and City Council of the
City of Bellmead, Texas

We have audited the financial statements of the City of Bellmead, Texas as of and for the year ended September 30, 2017, and have issued our report thereon dated March 13, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 7, 2017, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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**Governmental Audit
Quality Center**

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

As a part of the engagement we assisted in preparing the financial statements, and related notes to the financial statements of the City in conformity with U.S. generally accepted accounting principles based on information provided by you.

In order to ensure we maintain our independence for performing these nonaudit services certain safeguards were applied to this engagement. Management assumed responsibility for the financial statements and related notes to the financial statements and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements and related notes to the financial statements and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the net pension liability is based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuarial makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension liability and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimate of the allowance for uncollectible accounts is based on historical collection rates. We evaluated the key factors and assumptions used to develop the estimates listed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to the net pension liability. The disclosures in the financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated March 13, 2018.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

This report is intended solely for the information and use of the City Council and management of the City of Bellmead and is not intended to be and should not be used by anyone other than these specified parties.

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

Waco, Texas
March 13, 2018

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.