

OFFICIAL STATEMENT

Dated: June 19, 2018

NEW ISSUE - Book-Entry-Only

Enhanced/Unenhanced S&P Ratings: "AA" / "A"

(See "BOND INSURANCE", "BOND INSURANCE GENERAL RISKS"
and "RATINGS" herein)

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the County (defined below) after the date of initial delivery of the Bonds (defined below), with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), 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.)

\$35,510,000

McLENNAN COUNTY, TEXAS

(A political subdivision of the State of Texas)

VENUE PROJECT REVENUE AND REFUNDING BONDS (COMBINED VENUE TAX), SERIES 2018A

Dated Date: July 1, 2018

Due: June 1, as shown on p. ii hereof

Interest Accrual: Date of Delivery

The McLennan County, Texas Venue Project Revenue and Refunding Bonds (Combined Venue Tax), Series 2018A (the "Bonds") are being issued by the Commissioners Court (the "Court") of McLennan County, Texas (the "County") pursuant to the provisions of Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), Chapter 334, as amended, Texas Local Government Code, an election held in the County on May 6, 2017, and an order adopted on June 19, 2018 by the Court (the "Order").

The Bonds constitute special, limited obligations of the County, payable solely from and secured by a lien on and pledge of certain County revenues (as identified and described herein with respect to both source and priority, and herein referred to as the "Pledged Revenues"). Payment of the Bonds is secured primarily by (i) a first and prior lien on and pledge of the Hotel Occupancy Tax Revenues (defined herein) and (ii) a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues (defined herein). The Bonds are being issued by the County to (i) refund the County's currently outstanding obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), (ii) fund additional costs of the Venue Project (defined herein), (iii) fund a debt service reserve account, and (iv) pay the costs of their issuance.

The Bonds are payable solely from and secured by the lien on and pledge of the Pledged Revenues as provided in the Order and not from any other revenues, properties, or income of the County. Neither the State of Texas (the "State") nor any political corporation, subdivision, or agency thereof (other than the County) will be obligated to pay the Bonds or interest thereon, and neither the faith and credit nor the ad valorem taxing power of the State or any political corporation, subdivision, or agency thereof is pledged to the payment of principal of or interest on the Bonds. No mortgage or deed of trust on any Venue Project or any other County property is created by the Order.

The definitive Bonds will be issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof. When issued, the definitive Bonds will be registered in the name of Cede & Co., as registered holder and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial ownership interests in the Bonds will be made in book-entry form. Purchasers will not receive certificates representing their beneficial interest in the Bonds purchased. Interest on the Bonds accrues from their date of initial delivery specified below (the "Date of Delivery") to the initial purchasers thereof named below (the "Underwriters") and is payable on December 1, 2018 and on each June 1 and December 1 thereafter until stated maturity or prior redemption. So long as DTC or its nominee is the registered owner of the Bonds, the principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar, which initially is UMB Bank, N.A., Austin, Texas, to Cede & Co., who will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued, concurrently with delivery of the Bonds, by Assured Guaranty Municipal Corp. See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.

**ASSURED
GUARANTY**
MUNICIPAL

SEE PAGE ii HEREIN FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS

The Bonds are offered for delivery when, as and if issued and received by the Underwriters subject to the approval of legality 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. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead, P.C., San Antonio, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on July 12, 2018.

FROST BANK

WELLS FARGO SECURITIES

\$35,510,000
McLENNAN COUNTY, TEXAS
Venue Project Revenue and Refunding Bonds (Combined Venue Tax), Series 2018A

CUSIP No. Prefix⁽¹⁾ 582204

MATURITY SCHEDULE

\$9,605,000 SERIAL BONDS

| Maturity Date (June 1) | Principal Amount (\$) | Interest Rate (%) | Initial Yield (%) | CUSIP No. Suffix⁽¹⁾ | Maturity Date (June 1) | Principal Amount (\$) | Interest Rate (%) | Initial Yield (%) | CUSIP No. Suffix⁽¹⁾ |
|-------------------------------|------------------------------|--------------------------|--------------------------|---------------------------------------|-------------------------------|------------------------------|--------------------------|--------------------------|---------------------------------------|
| 2019 | 500,000 | 3.000 | 1.750 | AA1 | 2029 | 500,000 | 5.000 | 3.230 ⁽²⁾ | AL7 |
| 2020 | 340,000 | 3.000 | 2.040 | AB9 | 2030 | 525,000 | 5.000 | 3.270 ⁽²⁾ | AM5 |
| 2021 | 350,000 | 4.000 | 2.240 | AC7 | 2031 | 555,000 | 5.000 | 3.300 ⁽²⁾ | AN3 |
| 2022 | 365,000 | 4.000 | 2.380 | AD5 | 2032 | 580,000 | 5.000 | 3.340 ⁽²⁾ | AP8 |
| 2023 | 380,000 | 4.000 | 2.520 | AE3 | 2033 | 610,000 | 3.500 | 3.630 | AQ6 |
| 2024 | 395,000 | 5.000 | 2.680 | AF0 | 2034 | 630,000 | 5.000 | 3.440 ⁽²⁾ | AR4 |
| 2025 | 415,000 | 5.000 | 2.830 | AG8 | 2035 | 665,000 | 5.000 | 3.480 ⁽²⁾ | AS2 |
| 2026 | 435,000 | 5.000 | 2.980 | AH6 | 2036 | 695,000 | 5.000 | 3.520 ⁽²⁾ | AT0 |
| 2027 | 455,000 | 5.000 | 3.050 | AJ2 | 2037 | 730,000 | 5.000 | 3.540 ⁽²⁾ | AU7 |
| 2028 | 480,000 | 5.000 | 3.110 | AK9 | | | | | |

\$25,905,000 TERM BONDS

\$2,415,000 5.000% Term Bond Due June 1, 2040 and priced to yield 3.590%⁽²⁾ – CUSIP Suffix AV5⁽¹⁾
 \$2,805,000 5.000% Term Bond Due June 1, 2043 and priced to yield 3.620%⁽²⁾ – CUSIP Suffix AW3⁽¹⁾
 \$5,575,000 4.000% Term Bond Due June 1, 2048 and priced to yield 4.070% – CUSIP Suffix AX1⁽¹⁾
 \$15,110,000 4.125% Term Bond Due June 1, 2058 and priced to yield 4.190% – CUSIP Suffix AY9⁽¹⁾

(Interest accrues from Date of Delivery)

Redemption

The Bonds maturing on or after June 1, 2029 may be redeemed, in whole or in part, prior to stated maturity at the County’s option on June 1, 2028, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The Bonds maturing on June 1 in each of the years 2040, 2043, 2048, and 2058 (the “Term Bonds”) are also subject to mandatory sinking fund redemption prior to stated maturity. (See “THE BONDS – Redemption” herein.)

⁽¹⁾ CUSIP numbers are included solely for the convenience of owners of the Bonds. 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 County, the Financial Advisor or the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on June 1, 2028, the first optional call date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

**MCLENNAN COUNTY, TEXAS
OFFICIALS, STAFF, AND CONSULTANTS**

ELECTED OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Date First Elected</u> | <u>Term Expires</u> |
|---------------|--------------------------|---------------------------|---------------------|
| Scott Felton | County Judge | 2012 | 2018 |
| Kelly Snell | Commissioner, Precinct 1 | 2008 | 2020 |
| Lester Gibson | Commissioner, Precinct 2 | 1990 | 2018 |
| Will Jones | Commissioner, Precinct 3 | 2012 | 2020 |
| Ben Perry | Commissioner, Precinct 4 | 2010 | 2018 |

SELECTED ADMINISTRATIVE STAFF

| <u>Name</u> | <u>Position</u> | <u>Length of Service with County</u> |
|----------------|------------------------|--------------------------------------|
| Stan Chambers | County Auditor | 7 years |
| Dustin Chapman | County Administrator | 6 years |
| Andy Harwell | County Clerk | 23 years |
| Bill Helton | County Treasurer | 25 years |
| Randy Riggs | Tax Assessor-Collector | 5 years |

CONSULTANTS AND ADVISORS

Certified Public Accountants.....Pattillo, Brown & Hill, L.L.P.
Waco, Texas

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

Financial AdvisorSAMCO Capital Markets, Inc.
San Antonio, Texas

For additional information regarding the County, please contact:

Mr. Dustin Chapman
County Administrator
McLennan County, Texas
214 North 4th Street, Suite 100
Waco, Texas 76701
(254) 757-5049
dustin.chapman@co.mclennan.tx.us

Mr. Mark McLiney
Senior Managing Director
SAMCO Capital Markets, Inc.
1020 NE Loop 410, Suite 640
San Antonio, Texas 78209
(210) 832-9760
mmcliney@samcocapital.com

Mr. Andrew Friedman
Managing Director
SAMCO Capital Markets, Inc.
1020 NE Loop 410, Suite 640
San Antonio, Texas 78209
(210) 832-9760
afriedman@samcocapital.com

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the County and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or other matters described. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the County's undertaking to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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 County 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 BONDS 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 BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

NONE OF THE COUNTY, THE FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY AND ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF AGM (DEFINED HEREIN), AND ITS MUNICIPAL BOND INSURANCE POLICY OR SURETY POLICY, AS DESCRIBED HEREIN UNDER THE CAPTION "BOND INSURANCE" OR AS REFERENCED IN THIS OFFICIAL STATEMENT.

The agreements of the County and others related to the Bonds 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 Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Assured Guaranty Municipal Corp. ("AGM") makes no representations regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and "APPENDIX E – FORM OF MUNICIPAL BOND INSURANCE POLICY".

[The remainder of this page is intentionally left blank.]

TABLE OF CONTENTS

| | | | |
|----------------------------------------------------------------------------------------|----|----------------------------------------------------------------------------|----|
| INTRODUCTORY STATEMENT..... | 1 | Tax Accounting Treatment of Discount Bonds | 24 |
| PLAN OF FINANCE | 1 | Tax Accounting Treatment of Premium Bonds | 25 |
| Authorization and Purposes..... | 1 | LEGAL MATTERS | 25 |
| Refunded Obligations..... | 1 | INVESTMENT POLICIES..... | 26 |
| Venue Project and Venue Taxes..... | 2 | Investments..... | 26 |
| Sources and Uses of Funds..... | 3 | Legal Investments..... | 26 |
| Debt Service and Debt Service Coverage..... | 3 | Investment Policies..... | 27 |
| THE BONDS | 5 | Additional Provisions | 27 |
| General Description..... | 5 | Current Investments..... | 27 |
| Security for Payment | 5 | NO-LITIGATION | 28 |
| Perfection of Security Interest | 5 | CONTINUING DISCLOSURE OF INFORMATION..... | 28 |
| Additional Obligations | 5 | Annual Reports..... | 28 |
| Redemption | 5 | Notice of Certain Events | 29 |
| Notices of Redemption and Amendments through DTC | 6 | Availability of Information..... | 29 |
| Book-Entry-Only System | 7 | Limitations and Amendments..... | 29 |
| Defeasance | 8 | Compliance with Prior Agreements..... | 30 |
| Amendments..... | 9 | OTHER PERTINENT INFORMATION | 30 |
| Defaults and Remedies | 9 | Authenticity of Financial Data and Other Information | 30 |
| Payment Record | 9 | Registration and Qualification of Bonds for Sale..... | 30 |
| Legality | 9 | Legal Investments and Eligibility to Secure Public Funds in Texas | 30 |
| Delivery..... | 9 | Financial Advisor | 30 |
| REGISTRATION, TRANSFER, AND EXCHANGE | 10 | Underwriting | 31 |
| Paying Agent/Registrar | 10 | Financial Statements..... | 31 |
| Successor Paying Agent/Registrar..... | 10 | Use of Information in the Official Statement | 31 |
| Record Date..... | 10 | Forward Looking Statements and Investor Considerations..... | 31 |
| Registration, Transferability and Exchange..... | 10 | Certification of the Official Statement..... | 32 |
| Replacement Bonds..... | 10 | Authorization of the Official Statement..... | 32 |
| SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS | 11 | | |
| General | 11 | | |
| Pledged Revenues..... | 11 | | |
| Venue Project Fund..... | 18 | | |
| INVESTOR CONSIDERATIONS, MARKET FACTORS and THE VENUE TAXES | 20 | | |
| BOND INSURANCE..... | 21 | | |
| Bond Insurance Policy..... | 21 | | |
| Assured Guaranty Municipal Corp. | 21 | | |
| BOND INSURANCE GENERAL RISKS | 23 | | |
| General | 23 | | |
| Claims-Paying Ability and Financial Strength of Municipal Bond Insurers..... | 23 | | |
| RATINGS | 23 | | |
| TAX MATTERS | 24 | | |
| Tax Exemption | 24 | | |
| Tax Changes | 24 | | |
| Ancillary Tax Consequences | 24 | | |
| Table of Refunded Obligations | | SCHEDULE I | |
| Excerpts from the Order | | APPENDIX A | |
| General Information Regarding McLennan County, Texas and the City of Waco, Texas | | APPENDIX B | |
| The County's Audited Financial Statements for the Year Ended September 30, 2017 | | APPENDIX C | |
| Form of Opinion of Bond Counsel | | APPENDIX D | |
| Form of Municipal Bond Insurance Policy | | APPENDIX E | |

(this page intentionally left blank)

OFFICIAL STATEMENT

RELATING TO

\$35,510,000

McLENNAN COUNTY, TEXAS

VENUE PROJECT REVENUE AND REFUNDING BONDS (COMBINED VENUE TAX), SERIES 2018A

INTRODUCTORY STATEMENT

This Official Statement has been prepared by McLennan County, Texas (the “Issuer” or the “County”), in connection with its offering of its Venue Project Revenue and Refunding Bonds (Combined Venue Tax), Series 2018A (the “Bonds”). Capitalized terms used, but not defined, herein shall have the respective meanings ascribed thereto in the Order (hereinafter defined). See “Excerpts from the Order” attached hereto as Appendix A.

There follows in this Official Statement descriptions of the Bonds and certain other information about the County and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the County at 214 North 4th Street, Suite 100, Waco, Texas 76701 and, during the offering period, from the County’s Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, upon request by electronic mail or physical delivery upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the Official Statement, in final form, 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 County’s undertaking to provide certain information on a continuing basis.

PLAN OF FINANCE

Authorization and Purposes

The Bonds are being issued pursuant to the provisions of Chapter 1207, as amended, Texas Government Code (“Chapter 1207”), Chapter 1371, as amended, Texas Government Code (“Chapter 1371”), Chapter 334, as amended, Texas Local Government Code (“Chapter 334”), an election held in the County on May 6, 2017, and an order adopted on June 19, 2018 by the Court (the “Order”).

Proceeds from the sale of the Bonds will be used to (i) refund those currently outstanding obligations of the County described in Schedule I hereto (the “Refunded Obligations”), (ii) fund additional costs of the Venue Project (defined and described herein; see “PLAN OF FINANCE – Venue Project and Venue Taxes – The Venue Project”), (iii) fund a debt service reserve account, and (iv) pay the costs of their issuance.

Refunded Obligations

General Overview of the Refunded Obligations. The Refunded Obligations were originally issued to provide short-term, interim financing to pay certain costs of the Venue Project and are now being refunded into long-term financing to take advantage of low costs of borrowing and to restructure the outstanding County debt secured by and payable from Pledged Revenues (defined and described herein; see “SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Pledged Revenues”). Upon the defeasance of the Refunded Obligations, the unspent proceeds thereof will be transferred from the construction account, in which they were originally deposited and are now held, into the 2018A Construction Account (defined herein) as specified in the Order and as described herein (see “SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – 2018A Construction Account”) to pay, when added to certain proceeds of the Bonds also deposited into the 2018A Construction Account at such time, the costs of the Venue Project, as contemplated and provided for at the time of issuance of such Refunded Obligations.

Legal Defeasance and Redemption of Refunded Obligations. The Refunded Obligations, and interest due thereon, are to be paid on the scheduled redemption date on July 12, 2018 from funds to be deposited with Frost Bank, San Antonio, Texas, the paying agent/registrars for the Refunded Obligations (the “Refunded Obligations Paying Agent”).

The Order provides that the County will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the County, if any, with the Refunded Obligations Paying Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their date of redemption. Such funds will be held uninvested by the Refunded Obligations Paying Agent in the interest and sinking fund maintained thereby for the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the County, will certify as to the sufficiency of the amount initially deposited to the Refunded Obligations interest and sinking fund, without regard to investment income, to pay the principal of and interest on the Refunded Obligations when due at the scheduled date of redemption. Such cash held in the Refunded Obligations interest and sinking fund will not be available to pay the debt service requirements on the Bonds.

Simultaneously with the issuance of the Bonds, the County will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity, on which date of redemption money will be made available to redeem the Refunded Obligations from proceeds held in the Refunded Obligations interest and sinking fund.

By the deposit of the cash described above with the Refunded Obligations Paying Agent, the County will have affected the defeasance of the Refunded Obligations, as applicable pursuant to the terms of the order of the Court authorizing their issuance. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Obligations will no longer be payable from the revenues of the County originally pledged as security therefor, but will be payable solely from the cash on deposit in the Refunded Obligations interest and sinking fund and held for such purpose by the Refunded Obligations Paying Agent, and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the County for the purpose of a limitation of indebtedness or for any other purpose. See "Form of Opinion of Bond Counsel" attached hereto as Appendix D.

Venue Project and Venue Taxes

The Venue Project. The Venue Project is located at the Heart of Texas Fairgrounds (now known as the Extraco Events Center and referred to herein as the "Heart of Texas Fairgrounds") off of Bosque Boulevard in the City of Waco, Texas (the "City") and will include development, construction and renovation of new and existing facilities located thereat, including a multi-purpose arena, adjacent support facilities and any related infrastructure. The Venue Project has been designated as a "sports and community venue project" within the County in accordance with and as defined by Chapter 334.

The Heart of Texas Fairgrounds hosts the Heart Of Texas Fair & Rodeo and, among other things, conventions, trade shows, consumer and public shows, livestock and equine shows, concerts, festivals, and expositions and competitions, and covers approximately 60 acres of land containing modernized facilities, 700 livestock stalls, 250 recreational vehicle hook-ups and parking areas able to accommodate over 3,800 vehicles. Its facilities consist of the Heart Of Texas Coliseum, Back Porch Club, Show Pavilion, General Exhibits Building, Creative Arts Building and the Stall Barn. Through the Venue Project, the Heart of Texas Fairgrounds is expected to be developed, as a result of collaboration among the County, the City, and Waco Independent School District, to include a state-of-the-art multi-purpose arena, new sports facilities, including baseball and softball fields and a soccer and track complex, additional equine and livestock facilities, including new stalls and show arena, and replace certain existing buildings and infrastructure, including street improvements, utilities, lighting, landscaping and graphics. The multi-purpose arena is expected to be approximately 80,000 square feet, including approximately 53,000 square feet of exhibit space, to connect to the Heart Of Texas Coliseum and host, among other events, a variety of trade shows, livestock and equine shows, consumer and public shows, expositions, conventions, sporting events, concerts, festivals, recreational and collegiate competitions, telecasts and banquets. The McLennan County Fair, Inc., a Texas nonprofit corporation ("MCFI"), currently leases, manages and operates the Heart of Texas Fairgrounds, including all improvements thereon, such as the Venue Project, pursuant to a lease agreement by and between the County, as lessor, and MCFI, as lessee, and MCFI will be responsible for the management and operating costs of the Venue Project pursuant to such lease. Such operating costs will be paid for with revenues derived from the activities, events, conventions, shows and otherwise described in the preceding sentences.

Pursuant to Chapter 334, the Court adopted Resolution No. 2017-001 on January 17, 2017 (the "Resolution") providing for the planning, acquisition, establishment, development, construction and renovation of new and existing facilities, including a multi-purpose arena, adjacent support facilities at the location of the Heart of Texas Fairgrounds and on surrounding property, and any related infrastructure (the "Venue Project"), the financing thereof, and to designate the Venue Project as a "sports and community venue project" within the County in accordance with and as defined by Chapter 334. The Court then submitted the Resolution to the Texas Comptroller of Public Accounts, as required by Chapter 334, and received written confirmation by letter dated January 25, 2017, that approval and implementation of the Resolution would have no significant negative fiscal impact on revenues of the State of Texas ("Texas" or the "State"). The Resolution designated the following financing methods for the Venue Project:

- (a) the imposition of a tax on the occupancy of a room in a Hotel (defined herein) located within the County, at a rate not to exceed 2.00% of the price paid for such room, as and to the extent authorized by Subchapter H of Chapter 334 (the "Hotel Occupancy Tax"); and
- (b) the imposition of a tax at a rate not to exceed 5.00% on the gross rental receipts from the short-term rental in the County of a Motor Vehicle (defined herein), as and to the extent authorized by Subchapter E of Chapter 334 (the "Motor Vehicle Rental Tax" and, together with the Hotel Occupancy Tax, the "Venue Taxes").

On February 7, 2017, the Court adopted Order No. 2017-001 calling a special election to be held within the County on May 6, 2017 (the "Election") to permit County residents to vote on the approval of the adoption and implementation of the Resolution. At the Election, qualified County voters approved the adoption and implementation of the Resolution, including designating the Venue Project as a "sports and community venue project", imposing and collecting the Venue Taxes, and issuing one or more series of bonds secured by and payable, in whole or in part, from the revenues derived by the County from imposing and collecting the Venue Taxes for purpose of financing the planning, acquisition, establishment, development, construction and renovation of the Venue Project as permitted under Chapter 334. The Refunded Obligations represented the first issuance of debt pursuant to this authorization. Upon the issuance of the Bonds and the defeasance of the Refunded Obligations, the Bonds will represent the only outstanding County debt pursuant to this voted authority.

Venue Taxes. On June 20, 2017, the County adopted an order, as amended on July 18, 2017 (the "Venue Tax Imposition Order"), imposing the Motor Vehicle Rental Tax and the Hotel Occupancy Tax. The County began collecting the Hotel Occupancy Tax on August 1, 2017 and the Motor Vehicle Rental Tax on July 1, 2017. As of May 31, 2018, the County had collected \$1,251,415 in Hotel Occupancy Tax Revenues (defined herein) and \$357,274 in Motor Vehicle Rental Tax Revenues (defined herein). See "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Pledged Revenues", "– The Hotel Occupancy Tax" and "– The Motor Vehicle Rental Tax" for additional information regarding the Hotel Occupancy Tax and Motor Vehicle Rental Tax, respectively.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

| | |
|-----------------------------------------------------------|--------------------------------|
| Sources | |
| Principal Amount of the Bonds | \$ 35,510,000.00 |
| Net Reoffering Premium | <u>1,371,102.55</u> |
| Total Sources of Funds | <u><u>\$ 36,881,102.55</u></u> |
| Uses | |
| Deposit to Refunded Obligations interest and sinking fund | \$ 31,636,675.00 |
| Deposit to 2018A Construction Account | 3,921,065.89 |
| Costs of Issuance (including Bond Insurance Premium) | 1,031,387.28 |
| Underwriters' Discount | 234,826.25 |
| Debt Service Reserve Surety Policy Premium | 56,318.63 |
| Contingency | <u>829.50</u> |
| Total Uses of Funds | <u><u>\$ 36,881,102.55</u></u> |

Debt Service and Debt Service Coverage

The table below includes debt service requirements on the Bonds, along with Hotel Occupancy Tax Revenues and Motor Vehicle Rental Tax Revenues for actual collections from September 1, 2017 through May 31, 2018 and an average of the prior collections (using actual collections from September 1, 2017 through May 31, 2018 to determine monthly average) for June 1, 2018 through September 30, 2018, and projected collections for the fiscal years ending September 30, 2019 through 2058 of each year (utilizing a “zero growth” assumption for such reporting periods), after deduction of administrative fees and other adjustments.

[The remainder of this page is intentionally left blank.]

Table 1
Venue Tax Revenue and Bond Debt Service⁽¹⁾

| Fiscal Year (Sept. 30) | Actual/Projected Revenues | | | Bond Debt Service | | | | | | |
|------------------------|-------------------------------|------------------------------------|----------------------------------------|-------------------|---------------|----------------|--------------------------------------|----------------------------------|-----------------------|----------------------|
| | Actual/Projected Revenue (\$) | Actual/Projected MVRT Revenue (\$) | Pledged Revenue Available for D/S (\$) | Principal (\$) | Interest (\$) | Total D/S (\$) | Principal Unpaid at End of Year (\$) | Percent of Principal Retired (%) | Annual Coverage Ratio | Excess Revenues (\$) |
| 2018 | 1,668,553 | 395,007 | 2,063,560 | \$500,000 | \$1,374,037 | \$1,874,037 | 35,510,000 | 1.41 | 1.10 | 2,063,560 |
| 2019 | 1,668,553 | 395,007 | 2,063,560 | 340,000 | 1,535,638 | 1,875,638 | 35,010,000 | 2.37 | 1.10 | 189,523 |
| 2020 | 1,668,553 | 395,007 | 2,063,560 | 350,000 | 1,525,438 | 1,875,438 | 34,670,000 | 3.35 | 1.10 | 187,923 |
| 2021 | 1,668,553 | 395,007 | 2,063,560 | 365,000 | 1,511,438 | 1,876,438 | 34,320,000 | 4.38 | 1.10 | 188,123 |
| 2022 | 1,668,553 | 395,007 | 2,063,560 | 380,000 | 1,496,838 | 1,876,838 | 33,955,000 | 5.45 | 1.10 | 187,123 |
| 2023 | 1,668,553 | 395,007 | 2,063,560 | 395,000 | 1,481,638 | 1,876,638 | 33,575,000 | 6.56 | 1.10 | 186,723 |
| 2024 | 1,668,553 | 395,007 | 2,063,560 | 415,000 | 1,461,888 | 1,876,888 | 33,180,000 | 7.73 | 1.10 | 186,923 |
| 2025 | 1,668,553 | 395,007 | 2,063,560 | 435,000 | 1,441,138 | 1,876,138 | 32,765,000 | 8.96 | 1.10 | 186,673 |
| 2026 | 1,668,553 | 395,007 | 2,063,560 | 455,000 | 1,419,388 | 1,874,388 | 32,330,000 | 10.24 | 1.10 | 187,423 |
| 2027 | 1,668,553 | 395,007 | 2,063,560 | 480,000 | 1,396,638 | 1,874,638 | 31,875,000 | 11.59 | 1.10 | 189,173 |
| 2028 | 1,668,553 | 395,007 | 2,063,560 | 500,000 | 1,372,638 | 1,872,638 | 31,395,000 | 13.00 | 1.10 | 186,923 |
| 2029 | 1,668,553 | 395,007 | 2,063,560 | 525,000 | 1,347,638 | 1,872,638 | 30,895,000 | 14.47 | 1.10 | 190,923 |
| 2030 | 1,668,553 | 395,007 | 2,063,560 | 555,000 | 1,321,388 | 1,876,388 | 30,370,000 | 16.04 | 1.10 | 190,923 |
| 2031 | 1,668,553 | 395,007 | 2,063,560 | 580,000 | 1,293,638 | 1,873,638 | 29,815,000 | 17.67 | 1.10 | 187,173 |
| 2032 | 1,668,553 | 395,007 | 2,063,560 | 610,000 | 1,264,638 | 1,874,638 | 29,235,000 | 19.39 | 1.10 | 189,923 |
| 2033 | 1,668,553 | 395,007 | 2,063,560 | 630,000 | 1,243,288 | 1,873,288 | 28,625,000 | 21.16 | 1.10 | 190,273 |
| 2034 | 1,668,553 | 395,007 | 2,063,560 | 665,000 | 1,211,788 | 1,876,788 | 27,995,000 | 23.04 | 1.10 | 186,773 |
| 2035 | 1,668,553 | 395,007 | 2,063,560 | 695,000 | 1,178,538 | 1,873,538 | 27,330,000 | 24.99 | 1.10 | 186,773 |
| 2036 | 1,668,553 | 395,007 | 2,063,560 | 730,000 | 1,143,788 | 1,873,788 | 26,635,000 | 27.05 | 1.10 | 190,023 |
| 2037 | 1,668,553 | 395,007 | 2,063,560 | 765,000 | 1,107,288 | 1,872,288 | 25,905,000 | 29.20 | 1.10 | 189,773 |
| 2038 | 1,668,553 | 395,007 | 2,063,560 | 805,000 | 1,069,038 | 1,874,038 | 25,140,000 | 31.47 | 1.10 | 191,273 |
| 2039 | 1,668,553 | 395,007 | 2,063,560 | 845,000 | 1,028,788 | 1,873,788 | 24,335,000 | 33.85 | 1.10 | 189,523 |
| 2040 | 1,668,553 | 395,007 | 2,063,560 | 890,000 | 986,538 | 1,876,538 | 23,490,000 | 36.36 | 1.10 | 189,773 |
| 2041 | 1,668,553 | 395,007 | 2,063,560 | 935,000 | 942,038 | 1,877,038 | 22,600,000 | 38.99 | 1.10 | 187,023 |
| 2042 | 1,668,553 | 395,007 | 2,063,560 | 980,000 | 895,288 | 1,875,288 | 21,665,000 | 41.75 | 1.10 | 186,523 |
| 2043 | 1,668,553 | 395,007 | 2,063,560 | 1,030,000 | 846,288 | 1,876,288 | 20,685,000 | 44.65 | 1.10 | 188,273 |
| 2044 | 1,668,553 | 395,007 | 2,063,560 | 1,070,000 | 805,088 | 1,875,088 | 19,655,000 | 47.66 | 1.10 | 187,273 |
| 2045 | 1,668,553 | 395,007 | 2,063,560 | 1,115,000 | 762,288 | 1,877,288 | 18,585,000 | 50.80 | 1.10 | 188,473 |
| 2046 | 1,668,553 | 395,007 | 2,063,560 | 1,155,000 | 717,688 | 1,872,688 | 17,470,000 | 54.06 | 1.10 | 186,273 |
| 2047 | 1,668,553 | 395,007 | 2,063,560 | 1,205,000 | 671,488 | 1,876,488 | 16,315,000 | 57.45 | 1.10 | 190,873 |
| 2048 | 1,668,553 | 395,007 | 2,063,560 | 1,250,000 | 623,288 | 1,873,288 | 15,110,000 | 60.97 | 1.10 | 187,073 |
| 2049 | 1,668,553 | 395,007 | 2,063,560 | 1,305,000 | 571,725 | 1,876,725 | 13,860,000 | 64.64 | 1.10 | 190,273 |
| 2050 | 1,668,553 | 395,007 | 2,063,560 | 1,355,000 | 517,894 | 1,872,894 | 12,555,000 | 68.46 | 1.10 | 186,835 |
| 2051 | 1,668,553 | 395,007 | 2,063,560 | 1,415,000 | 462,000 | 1,877,000 | 11,200,000 | 72.44 | 1.10 | 190,666 |
| 2052 | 1,668,553 | 395,007 | 2,063,560 | 1,470,000 | 403,631 | 1,873,631 | 9,785,000 | 76.58 | 1.10 | 186,560 |
| 2053 | 1,668,553 | 395,007 | 2,063,560 | 1,530,000 | 342,994 | 1,872,994 | 8,315,000 | 80.89 | 1.10 | 189,929 |
| 2054 | 1,668,553 | 395,007 | 2,063,560 | 1,595,000 | 279,881 | 1,874,881 | 6,785,000 | 85.38 | 1.10 | 190,566 |
| 2055 | 1,668,553 | 395,007 | 2,063,560 | 1,660,000 | 214,088 | 1,874,088 | 5,190,000 | 90.06 | 1.10 | 188,679 |
| 2056 | 1,668,553 | 395,007 | 2,063,560 | 1,730,000 | 145,613 | 1,875,613 | 3,530,000 | 94.93 | 1.10 | 189,473 |
| 2057 | 1,668,553 | 395,007 | 2,063,560 | 1,800,000 | 74,250 | 1,874,250 | 1,800,000 | 100.00 | 1.10 | 187,948 |
| 2058 | 1,668,553 | 395,007 | 2,063,560 | 1,800,000 | 74,250 | 1,874,250 | - | 100.00 | 1.10 | 189,310 |
| T total | 68,410,673 | 16,195,287 | 84,605,930 | 35,510,000 | 39,488,587 | 74,998,587 | - | - | - | 9,607,373 |

⁽¹⁾ Hotel Occupancy Tax Revenues and Motor Vehicle Revenues reflect a fiscal year 2018 annualized assumption based on actual collections from October 1, 2017 through May 31, 2018 and an average of prior collections from September 1, 2017 through May 31, 2018 to determine monthly average) for June 1, 2018 through September 30, 2018. Subsequent years are shown at a constant level (i.e., zero growth) level.

THE BONDS

General Description

The Bonds will be dated July 1, 2018 (the “Dated Date”) and will be issued in principal denominations of \$5,000 or any integral multiple thereof. The Bonds bear interest from the Date of Delivery (anticipated to occur on July 12, 2018) at the stated interest rates indicated on page ii hereof. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and is payable initially on December 1, 2018, and each June 1 and December 1 thereafter, until the earlier of stated maturity or prior redemption.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books of the Paying Agent/Registrar (the “Register”) on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or redemption upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in denominations of \$5,000 or any integral multiple thereof.

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a day. The payment on such date shall have the same force and effect as if made on the original date payment was due.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium (if any), and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See “THE BONDS – Book-Entry-Only System” herein.)

Security for Payment

The Bonds are special, limited obligations of the County, the principal and interest on which are payable solely from, and secured solely by a lien on and pledge of, certain County revenues, being the Pledged Revenues (as further described herein; see “SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS” herein).

Perfection of Security Interest

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the County as security therefor, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of Pledged Revenues granted by the County is to be subject to the filing requirements of Chapter 9, as amended, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in such pledge, the County has agreed to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, as amended, Texas Business & Commerce Code, and enable a filing to perfect the security interest in the Pledged Revenues to occur.

Additional Obligations

No Additional Parity Obligations for New Money Purposes. In the Order, the County covenanted to not issue any additional obligations secured by a parity lien on and pledge of any revenues that constitute a part of Pledged Revenues; provided, however, that this covenant shall not prevent the County from issuing one or more series of bonds, notes, warrants, certificates of obligation or other debt that are payable, in whole or in part, from and equally and ratably secured by Pledged Revenues (“Additional Combined Venue Tax Bonds”) if the purpose of such issuance is to (i) refund the Bonds, in part, if such refunding results in a net present value savings when comparing the debt service on the refunded Bonds to the debt service on such refunding Additional Combined Venue Tax Bonds or (ii) cure an event of default of the County under the Order.

Junior Lien Obligations. The County may, at its option and from time to time for any lawful purpose, issue obligations payable from and secured by a junior lien on and pledge of all or part of any County revenues (including Pledged Revenues) theretofore pledged as security for the repayment of any Bonds to remain Outstanding after the issuance of the contemplated junior lien obligations. Such junior lien obligations shall have the characteristics and be subject to the terms and conditions as determined by the County. There are currently no junior lien obligations outstanding.

Redemption

Optional Redemption. The Bonds having stated maturities on and after June 1, 2029 are subject to redemption, at the request and option of the County, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on June 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If any Bonds within a Stated Maturity are to be redeemed or less than all outstanding Bonds are to be redeemed, such Bonds to be redeemed will be selected at random and by lot by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption. The Bonds maturing on June 1 in each of the years 2040, 2043, 2048, and 2058 (the “Term Bonds”) are also subject to mandatory sinking fund redemption in part prior to stated maturity from money required to be deposited in the Debt Service Account at the price of par plus accrued interest to the mandatory redemption dates and in the principal amounts as follows:

| Term Bonds Stated to Mature on June 1, 2040 | | Term Bonds Stated to Mature on June 1, 2043 | | Term Bonds Stated to Mature on June 1, 2048 | | Term Bonds Stated to Mature on June 1, 2058 | |
|---------------------------------------------------|----------------------------------|---------------------------------------------------|----------------------------------|---------------------------------------------------|----------------------------------|---------------------------------------------------|----------------------------------|
| <u>Year</u> | <u>Principal Amount (\$)</u> | <u>Year</u> | <u>Principal Amount (\$)</u> | <u>Year</u> | <u>Principal Amount (\$)</u> | <u>Year</u> | <u>Principal Amount (\$)</u> |
| 2038 | 765,000 | 2041 | 890,000 | 2044 | 1,030,000 | 2049 | 1,250,000 |
| 2039 | 805,000 | 2042 | 935,000 | 2045 | 1,070,000 | 2050 | 1,305,000 |
| 2040 | 845,000* | 2043 | 980,000* | 2046 | 1,115,000 | 2051 | 1,355,000 |
| | | | | 2047 | 1,155,000 | 2052 | 1,415,000 |
| | | | | 2048 | 1,205,000* | 2053 | 1,470,000 |
| | | | | | | 2054 | 1,530,000 |
| | | | | | | 2055 | 1,595,000 |
| | | | | | | 2056 | 1,660,000 |
| | | | | | | 2057 | 1,730,000 |
| | | | | | | 2058 | 1,800,000* |

*Payable at Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date that a Term Bond is to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable stated maturity to be redeemed on the next following June 1 from money set aside for that purpose in the Debt Service Account maintained for the payment of the Bonds. Any Term Bond not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the County, by the principal amount of the Term Bonds which, at least fifty (50) days prior to the mandatory redemption date (i) shall have been defeased or acquired by the County and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the County with money in the Debt Service Account (and not from the Debt Service Reserve Account), or (iii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption. Not less than 30 days prior to a redemption date for the Bonds, the County must cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each such registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the Register at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE OWNER. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been given as herein above provided, such Bond (or the principal amount thereof to be redeemed) will become due and payable and interest thereon will cease to accrue from and after the redemption date thereof, provided money sufficient for the payment of such Bond (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

All notices of redemption must (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, will become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, will cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, will be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner.

Notices of Redemption and Amendments through DTC

The Paying Agent/Registrar and the County, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owners, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the County will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with the rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds for the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the County or the Paying Agent/Registrar. None of the County, the Paying Agent/Registrar, or the Underwriters will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments of the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. (See “THE BONDS – Book-Entry-Only System” herein.)

Book-Entry-Only System

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

The County and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, 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 Bonds), or redemption or other notices, to the Beneficial Owners (defined below), 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 ("SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

General. The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds 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 County 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 County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County 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 Bonds at any time by giving reasonable notice to the County or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of the Bonds are required to be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but none of the County, the Financial Advisor, nor the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement. In reading this Official Statement it should be understood that while the Bonds 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 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order 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 County, printed certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER, AND EXCHANGE" below.

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of, redemption premium (if any), and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided for by depositing with the Paying Agent/Registrar, or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined herein) to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. In the event of a defeasance of the Bonds, the County will deliver a certificate from its financial advisor, the Paying Agent/Registrar or another qualified third party concerning the deposit of cash and/or Government Securities, to pay, when due, the principal of, redemption premium (if any), and interest due on any defeased Bonds. The County has additionally reserved the right, subject to satisfying the requirements of (i) and (ii) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the County money in excess of the amount required for such defeasance.

The Order provides that the term "Government Obligations" means the (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained by 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 Government Obligations (such list consisting of those securities identified in clauses (i) through (iii) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the County has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the County to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, Registered Owners of Bonds 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 Bonds shall no longer be regarded to be outstanding or unpaid, and the County shall have no further ability to amend the Order or redeem the Bonds prior to their stated maturity. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the County to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the County has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which

have been defeased to their stated maturity date, if the County (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds 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.

Amendments

The County may amend the Order 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 County may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the registered owners of the Bonds then outstanding, 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 Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, the redemption price therefor, or in any other way modify the terms of payment of the principal of, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, or waiver.

Defaults and Remedies

If the County defaults in the payment of principal, interest, or redemption price of or on the Bonds, as applicable, when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel County officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the County'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 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the County to perform in accordance with the terms of the Order, 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. Texas counties are generally immune from suits for money damages for breach of contracts under the doctrine of sovereign immunity. 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. Chapter 1371, which pertains to the issuance of public securities by issuers such as the County, permits the County to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "PLAN OF FINANCE – Authorization and Purposes"), the County has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the State legislature has effectively waived the County's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the County for breach of the Bonds or the Order covenants. Even if a judgment against the County could be obtained, it could not be enforced by direct levy and execution against the County's property. Further, the registered owners cannot themselves foreclose on property within the County or sell property within the County to enforce the lien on the Pledged Revenues securing the Bonds to pay the principal of and interest on such Bonds. Furthermore, the County 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 (such as the Pledged Revenues securing the Bonds), such provision is subject to judicial construction. 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 County 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 Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered for delivery when issued and received by the initial purchasers thereof (the "Underwriters") subject to the approving opinion of the Attorney General of the State and the approval of certain legal matters by Norton Rose Fulbright US LLP, Bond Counsel, San Antonio, Texas. The legal opinion of Bond Counsel will be printed on or attached to Bonds. A form of Bond Counsel's legal opinion appears in Appendix D attached hereto.

Delivery

When issued; anticipated to occur on or about July 12, 2018.

REGISTRATION, TRANSFER, AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. The Bonds 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. If the Bonds are not held in the Book-Entry-Only System, interest on the Bonds 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 Register on the Record Date (defined herein) or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal of the Bonds will be paid to the registered owner at stated maturity or earlier redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal of, redemption premium (if any), or interest on the Bonds 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.

Successor Paying Agent/Registrar

The County covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the County retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the County, the new Paying Agent/Registrar must 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 by the County must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the County will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar. No removal or replacement of the Paying Agent/Registrar will be effective until a new successor has been appointed and qualified as such.

Record Date

The record date ("Record Date") for determining the registered owner entitled to the receipt of payment of interest on a Bond on any interest payment date is the fifteenth day of the calendar month preceding the month in which occurs the subject interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System is discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Register only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated 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 Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds 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 Bonds registered and delivered in an exchange or transfer will be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and at the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer.

Neither the County nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds (i) during a period beginning at the close of business on any Record Date and ending with the next interest payment date or (ii) with respect to any Bonds or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such transfer and exchange restriction shall not apply to the uncalled balance of a Bond redeemed in part. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the County and the Paying Agent/Registrar evidence satisfactory to establish to the County and the Paying Agent/Registrar that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the County and the Paying Agent/Registrar with bond or indemnity satisfactory to them. The person requesting the authentication and

delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS

General

UNDER THE ORDER, THE BONDS, INCLUDING PRINCIPAL THEREOF AND INTEREST PAYABLE THEREON, CONSTITUTE SPECIAL, LIMITED OBLIGATIONS OF THE COUNTY PAYABLE SOLELY FROM, AND SECURED SOLELY BY A LIEN ON AND PLEDGE OF, THE PLEDGED REVENUES, AS PROVIDED IN THE ORDER AND AS DESCRIBED IN THIS OFFICIAL STATEMENT. THE BONDS DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE STATE OF TEXAS, AND THE HOLDERS THEREOF WILL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OUT OF ANY FUNDS RAISED OR TO BE RAISED BY AD VALOREM TAXATION. IN ADDITION, THE ORDER DOES NOT CREATE A MORTGAGE OR DEED OF TRUST ON THE VENUE PROJECT OR ANY OTHER PROPERTY OF THE COUNTY.

Pledged Revenues

General. The “Pledged Revenues” consist of (i) a first and prior lien on and pledge of the Hotel Occupancy Tax Revenues, (ii) a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues, and (iii) such other money, income, revenues or other property as may be specifically included in such term in any County order supplemental to the Order.

The Order defines “Hotel Occupancy Tax Revenues” to mean the revenues realized by the County from its imposition and collection of the Hotel Occupancy Tax, including penalties and interest for late payments and other payment or reporting-related noncompliance, but excluding amounts withheld for payment of collection costs owed to third parties and rebates, exceptions, and reimbursements as may from time to time be required by applicable law, all pursuant and subject to, and in accordance with, the Venue Tax Imposition Order.

The Order defines “Motor Vehicle Rental Tax Revenues” to mean the revenues realized by the County from its imposition and collection of the Motel Vehicle Rental Tax, including penalties and interest for late payments and other payment or reporting-related noncompliance, but excluding amounts withheld for payment of collection costs owed to third parties and rebates, exceptions, and reimbursements as may from time to time be required by applicable law, all pursuant and subject to, and in accordance with, the Venue Tax Imposition Order.

The Hotel Occupancy Tax. Chapter 334 authorizes the County to impose the Hotel Occupancy Tax on persons who, under a lease, concession, permit, right of access, license, contract, or agreement, pay for the use or possession of a Hotel room within the boundaries of the County that costs \$2.00 or more each day and is ordinarily used for sleeping. The Hotel Occupancy Tax equals 2.00% of the consideration paid to the Hotel for the right to use or possess the room. In the Order, “Hotel” is defined to mean a building in which members of the public obtain sleeping accommodations for consideration, including a hotel, motel, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed and breakfast; provided, however, that such term does not include (i) a hospital, sanitarium, or nursing home, (ii) a dormitory or other housing facility owned or leased and operated by an institution of higher education or a private or independent institution of higher education, as those terms are defined by Section 61.003, as amended, Texas Education Code, and used by the institution for the purpose of providing sleeping accommodations for persons engaged in an educational program or activity at the institution, or (iii) an oilfield portable unit, as defined by Section 152.001, as amended, Texas Tax Code, as amended; provided further, however, that the term does include a short-term rental in which the rental of all or part of a residential property to a person who is not a permanent resident under Section 156.101, as amended, Texas Tax Code. The consideration paid for a Hotel room, for purposes of Chapter 334, includes the cost of such Hotel room only if the Hotel room is one ordinarily used for sleeping, and does not include the cost of any food served or personal services rendered to the occupant of such Hotel room not related to the cleaning and readying of such Hotel room for occupancy.

To be subject to the Hotel Occupancy Tax, the occupant’s use, possession, or right to the use or possession of the sleeping room must be for a period of less than 30 consecutive days. In addition, (i) the United States, (ii) a governmental entity of the United States, (iii) an officer or employee of a governmental entity of the United States when traveling on or otherwise engaged in the course of official duties for such governmental entity and (iv) an officer or employee of the State, or any agency, institution, board or commission of the State (other than an Institution of Higher Education, as defined in Chapter 61, as amended, Texas Education Code) for whom a special provision or exception to the general rate of reimbursement under the General Appropriations Act applies and who is provided with photo identification verifying the identity and exempt status of such person are exempt from paying the Hotel Occupancy Tax. The State, or any agency, institution, board or commission of the State (other than an Institution of Higher Education) and an officer or employee of any such governmental entities for whom a special provision or exception to the general rate of reimbursement under the General Appropriations Act does not apply are entitled to a refund of the Hotel Occupancy paid thereby.

In addition to the 2.00% Hotel Occupancy Tax, a 13.00% occupancy tax is charged to all short-term (30 days or less) Hotel room rentals in a substantial portion of the County costing \$2.00 or more per day. The combined 15.00% occupancy tax is composed of the following: (i) a 6% hotel occupancy tax imposed by the State, (ii) a 7% hotel occupancy tax imposed by the City, and (iii) the 2.00% Hotel Occupancy Tax. Hotels within the County but not inside the corporate limits of the City are subject to a combined occupancy tax of 8%, which is composed of the (i) 6% hotel occupancy tax imposed by the State and (ii) 2.00% Hotel Occupancy Tax.

For a discussion of matters that may impact the County’s prospective Hotel Occupancy Tax Revenues, see “INVESTOR CONSIDERATIONS, MARKET FACTORS AND THE VENUE TAXES”.

The County has contracted with the City for the City to collect or cause to be collected the Hotel Occupancy Tax. The City has entered into a contract with a third party vendor to collect the Hotel Occupancy Tax throughout the County on the County’s behalf. The County has agreed

to pay for its share of the collection and compliance costs incurred by the City, including through the use of such third party vendor (the "Collection Costs"). The County's share of Collection Costs will be paid by it directly to such third party vendor and will not be deducted from the Hotel Occupancy Tax collected and paid to the County. Hotels and other eligible vendors of sleeping accommodations are required to collect the Hotel Occupancy Tax at the time room charges are received from patrons and remit such taxes to the Division of Treasury of the City. Upon receipt of Hotel Occupancy Taxes paid, the City will pay or cause to be paid to the County such collections within two full business days of receipt thereof. The City has agreed to cause the third party vendor to provide a web-based portal providing daily reports of collection activity for the County. The City has been collecting the Hotel Occupancy Tax on the County's behalf since its inception.

McLennan County Historical Hotel Occupancies and Average Daily Rates/History⁽¹⁾ Table 2

| Calendar Year | Room Count | Increase/ (Decrease) (%) | Average Daily Room Rate (\$) | Hotel Occupancy (%) | REVPAR(\$)⁽²⁾ |
|----------------------|-------------------|-------------------------------------|-----------------------------------------|--------------------------------|---------------------------------|
| 2007 | 3,359 | - | 64.26 | 60.40 | 38.59 |
| 2008 | 3,360 | 0.03 | 66.50 | 60.10 | 40.00 |
| 2009 | 3,666 | 9.11 | 63.84 | 53.80 | 34.33 |
| 2010 | 3,807 | 3.85 | 62.80 | 55.40 | 34.79 |
| 2011 | 3,728 | (2.08) | 64.58 | 55.70 | 35.99 |
| 2012 | 3,835 | 2.87 | 64.83 | 57.60 | 38.46 |
| 2013 | 3,695 | (3.65) | 69.51 | 61.70 | 42.92 |
| 2014 | 3,624 | (1.92) | 73.84 | 66.40 | 49.03 |
| 2015 | 3,695 | 1.96 | 77.70 | 68.30 | 53.07 |
| 2016 | 3,952 | 6.96 | 81.77 | 69.60 | 56.90 |
| 2017 | 4,064 | 2.83 | 85.64 | 71.80 | 61.52 |

⁽¹⁾ According to County officials, there are four hotels with a total of 468 rooms currently under construction (being two hotels with a combined 226 rooms expected to open in July of 2018 and two hotels with a combined 242 rooms expected to open in 2019) and four hotels with 358 rooms currently in plan review (with estimated opening dates in 2020).

⁽²⁾ Represents revenue per available room per day.

Source: Source Strategies Inc. Annual Reports.

[The remainder of this page is intentionally left blank.]

Hotel Occupancy Tax – Top 20 Hotels in the County by Annual Revenue

Table 3A

| Hotel | Location | Annual Revenue (\$)⁽¹⁾ |
|------------------------------|-----------------|------------------------------------------|
| Hilton Waco University Parks | Waco | 7,532,702 |
| Homewood Suites by Hilton | Waco | 6,489,479 |
| Hotel Indigo Baylor | Waco | 5,694,158 |
| Courtyard by Marriott | Waco | 4,812,641 |
| Hampton Inn & Suites Waco | Waco | 4,285,620 |
| Holiday Inn Waco Northwest | Bellmead | 3,718,265 |
| Home2Suites Waco | Waco | 3,580,329 |
| Waco Residence Inn | Waco | 3,143,053 |
| Hampton Inn Waco | Waco | 2,982,195 |
| SpringHill Suites | Waco | 2,841,489 |
| La Quinta Inn & Suites | Woodway | 2,674,364 |
| Comfort Suites Waco North | Waco | 2,622,079 |
| Fairfield Inn & Suites | Waco | 2,548,799 |
| Candlewood Suites | Waco | 2,547,145 |
| Holiday Inn Express Waco | Waco | 2,453,756 |
| Comfort Suites Waco | Waco | 2,143,902 |
| Town Place Suites | Waco | 1,883,945 |
| Quality Inn & Suites | Woodway | 1,767,189 |
| Best Western | Woodway | 1,747,931 |
| Fairfield Inn & Suites | Woodway | <u>1,711,030</u> |
| Total | | <u>67,180,071</u> |

⁽¹⁾ Represent 74.86% of total sales in the County.

Source: Texas Comptroller.

Hotel Occupancy Tax – Top 20 Hotels in the County by Number of Rooms

Table 3B

| Hotel | Location | Number of Rooms⁽¹⁾ |
|------------------------------|-----------------|--------------------------------------|
| Hilton Waco University Parks | Waco | 195 |
| Courtyard by Marriott | Waco | 153 |
| Hampton Inn & Suites | Waco | 123 |
| Holiday Inn Waco Northwest | Bellmead | 122 |
| Best Value Inn | Waco | 121 |
| Holiday Inn Express | Waco | 120 |
| Hampton Inn Lacy Lakeview | Bellmead | 119 |
| Motel 6 | Bellmead | 112 |
| Executive Suites | Waco | 112 |
| Hotel Indigo Baylor | Waco | 111 |
| Motel 6 | Waco | 110 |
| Fairfield Inn & Suites | Bellmead | 109 |
| Woodsprings Suites | Waco | 105 |
| Home2Suites | Waco | 105 |
| La Quinta Inn Baylor | Waco | 101 |
| Candlewood Suites | Waco | 99 |
| Comfort Suites | Waco | 99 |
| La Quinta Suites Woodway | Woodway | 99 |
| Extended Stay | Woodway | 95 |
| Red Carpet Hotel | Bellmead | <u>94</u> |
| Total | | <u>2,304</u> |

⁽¹⁾ Represent 56.69% of total rooms in the County.

Source: Source Strategies, Inc.

[The remainder of this page is intentionally left blank.]

McLennan County 10-Year Annual Hotel Room Sales

Table 4A

| Calendar Year | Total Hotel Room Sales (\$) | Increase/ (Decrease) (%) | Total Taxable Hotel Room Sales (\$) | Increase/ (Decrease) (%) |
|---------------|-----------------------------|-----------------------------|-------------------------------------|-----------------------------|
| 2007 | 47,427,342 | - | 38,502,033 | - |
| 2008 | 49,617,160 | 4.62 | 40,446,076 | 5.05 |
| 2009 | 46,643,256 | (5.99) | 39,228,839 | (3.01) |
| 2010 | 49,018,870 | 5.09 | 40,861,349 | 4.16 |
| 2011 | 50,175,964 | 2.36 | 41,138,529 | 0.68 |
| 2012 | 54,138,608 | 7.90 | 45,799,775 | 11.33 |
| 2013 | 60,861,720 | 12.42 | 51,063,417 | 11.49 |
| 2014 | 68,509,320 | 12.57 | 57,014,525 | 11.65 |
| 2015 | 73,334,900 | 7.04 | 62,310,012 | 9.29 |
| 2016 | 84,326,599 | 14.99 | 72,072,181 | 15.67 |
| 2017 | 94,299,208 | 11.83 | 79,072,474 | 9.71 |

Source: Texas Comptroller

McLennan County 5-Year Total Monthly Hotel Room Sales

Table 4B

| Year | Jan. (\$) | Feb. (\$) | Mar. (\$) | Apr. (\$) | May (\$) | June (\$) | Jul. (\$) | Aug. (\$) | Sept. (\$) | Oct. (\$) | Nov. (\$) | Dec. (\$) | Total (\$) | Average Monthly (\$) |
|------|-----------|-----------|-----------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|-----------|------------|----------------------|
| 2013 | 3,922,603 | 4,126,430 | 5,666,933 | 5,565,504 | 5,196,847 | 6,306,354 | 4,971,536 | 5,003,198 | 5,336,565 | 5,652,367 | 4,659,942 | 4,453,442 | 60,861,720 | 5,071,810 |
| 2014 | 4,612,822 | 4,771,779 | 6,285,932 | 5,839,991 | 5,554,140 | 7,300,995 | 5,665,404 | 6,147,673 | 5,708,795 | 6,360,516 | 5,171,246 | 5,090,026 | 68,509,320 | 5,709,110 |
| 2015 | 4,670,732 | 4,847,792 | 6,834,671 | 6,164,205 | 6,292,540 | 7,137,994 | 6,414,726 | 5,800,402 | 6,461,119 | 7,390,128 | 5,597,131 | 5,723,458 | 73,334,900 | 6,111,242 |
| 2016 | 5,514,141 | 5,930,717 | 7,641,104 | 7,805,454 | 6,788,102 | 8,775,807 | 7,209,937 | 7,054,515 | 7,726,307 | 7,529,473 | 6,247,032 | 6,104,008 | 84,326,599 | 7,027,217 |
| 2017 | 5,692,389 | 6,267,285 | 9,853,428 | 8,049,273 | 7,605,763 | 12,422,944 | 7,220,386 | 7,519,948 | 8,521,766 | 8,784,687 | 6,222,251 | 6,139,090 | 94,299,208 | 7,858,267 |

Source: Texas Comptroller

McLennan County 5-Year Total Taxable Monthly Hotel Room Sales

Table 4C

| Year | Jan. (\$) | Feb. (\$) | Mar. (\$) | Apr. (\$) | May (\$) | June (\$) | Jul. (\$) | Aug. (\$) | Sept. (\$) | Oct. (\$) | Nov. (\$) | Dec. (\$) | Total (\$) | Average Monthly (\$) |
|------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|------------|----------------------|
| 2013 | 3,204,870 | 3,466,556 | 4,542,554 | 4,464,495 | 4,403,006 | 5,133,209 | 4,374,884 | 4,433,536 | 4,453,226 | 4,969,491 | 4,020,425 | 3,597,165 | 51,063,417 | 4,255,285 |
| 2014 | 3,717,833 | 3,965,461 | 5,233,297 | 4,621,572 | 4,758,871 | 5,332,952 | 4,881,982 | 5,425,192 | 4,832,464 | 5,456,242 | 4,480,053 | 4,308,606 | 57,014,525 | 4,751,210 |
| 2015 | 3,823,962 | 4,037,633 | 5,619,037 | 5,108,927 | 5,429,422 | 6,220,241 | 5,170,577 | 5,157,248 | 5,585,005 | 6,449,365 | 4,927,590 | 4,781,006 | 62,310,012 | 5,192,501 |
| 2016 | 4,432,285 | 4,826,585 | 6,531,923 | 6,207,436 | 5,923,014 | 7,681,233 | 6,094,773 | 6,232,990 | 6,724,201 | 6,639,562 | 5,524,342 | 5,253,838 | 72,072,181 | 6,006,015 |
| 2017 | 4,738,143 | 5,275,906 | 8,494,135 | 6,693,707 | 6,904,518 | 8,502,583 | 6,535,213 | 6,391,128 | 7,211,464 | 7,801,005 | 5,403,001 | 5,121,671 | 79,072,474 | 6,589,373 |

Source: Texas Comptroller

McLennan County Hotel Occupancy Tax Revenues by Fiscal Year⁽¹⁾

Table 4D

| Year | Oct. (\$) | Nov. (\$) | Dec. (\$) | Jan. (\$) | Feb. (\$) | Mar. (\$) | Apr. (\$) | May (\$) | June (\$) | July (\$) | Aug. (\$) | Sept. (\$) | Total (\$) | Average Monthly (\$) |
|------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|------------|------------|----------------------|
| 2017 | - | - | - | - | - | - | - | - | - | - | - | 100,330 | 100,330 | 100,330 |
| 2018 | 118,929 | 197,798 | 107,114 | 120,708 | 114,796 | 124,462 | 179,488 | 187,791 | - | - | - | - | 1,151,086 | 143,885 |

⁽¹⁾ Unaudited. Hotel Occupancy Tax commenced August 1, 2017.

⁽²⁾ For fiscal year 2018, total amount is based on actual collections from October 1, 2017 through May 31, 2018 (see "CONTINUING DISCLOSURE OF INFORMATION – Annual Reports" herein).

[The remainder of this page is intentionally left blank.]

The Motor Vehicle Rental Tax. Chapter 334 authorizes the County to impose the Motor Vehicle Rental Tax on the rental within the County of a Motor Vehicle designed principally to transport persons or property on a public roadway for which such rental is not longer than 30 days. The Motor Vehicle Rental Tax is equal to 5.00% of the gross rental receipts from the rental of a Motor Vehicle in the County. In the order, “Motor Vehicle” is defined to mean a self-propelled vehicle designed principally to transport persons or property on a public roadway and includes a passenger car, van, station wagon, sports utility vehicle, and truck; provided, however, the term does not include a (i) trailer, semitrailer, house trailer, truck having a manufacturer’s rating of more than one-half ton, or road-building machine; (ii) device moved only by human power; (iii) device used exclusively on stationary rails or tracks; (iv) farm machine; or (v) mobile office. For the purposes of Chapter 334, “rental” means an agreement by the owner of a motor vehicle to authorize for not longer than 30 days the exclusive use of that vehicle to another for consideration. Auto rental establishments are required to collect the Motor Vehicle Rental Tax at the time the owner of the motor vehicle receives a rental payment.

The Motor Vehicle Rental Tax does not apply to the sale, rental or use of a motor vehicle (a) that is (i) owned by a motor vehicle dealer (as defined in Chapter 503, as amended, Texas Transportation Code), (ii) purchased in the State and (iii) is loaned free of charge by such motor vehicle dealer to a public school for use in an approved standard driving course; (b) if the motor vehicle is operated with an exempt license plate issued under Chapter 502, as amended, Texas Transportation Code, and is for use by (i) a public agency or (ii) commercial transportation company to provide transportation services under a contract with (A) a board of county school trustees or school district board of trustees under Chapter 34, as amended, Texas Education Code, or (B) the governing body of an open-enrollment charter school; (c) that is leased to a public agency of the State; (d) that will be or has been primarily driven or used by handicapped persons; (e) that is a fire truck, emergency medical services vehicle (as defined by Chapter 773, as amended, Texas Health and Safety Code, or other motor vehicle used exclusively for fire-fighting purposes or for emergency medical services that is purchased by (i) a volunteer fire department, (ii) nonprofit emergency medical service providers or (iii) an emergency medical service provider to which Chapter 52, as amended, Texas Transportation Code applies; (f) that is used for religious purposes; (g) that is purchased, used or rented by a qualified residential child-care facility (as defined in Chapter 152, as amended, Texas Tax Code) and intended for use primarily in transporting the children residing in such facility under a State license; and (h) that is rented for purposes of re-rental.

The State presently imposes a statewide 10.00% vehicle rental tax on all short-term motor vehicle rentals (30 days or less) and a 6.25% vehicle rental tax on long-term rentals (over 30 days but under 181 days).

For a discussion of matters that may impact the County’s prospective Motor Vehicle Rental Tax Revenues, see “INVESTOR CONSIDERATIONS, MARKET FACTORS AND THE VENUE TAXES” herein.

The Office of the Comptroller of Public Accounts of the State (the “Comptroller”) collects a State-wide motor vehicle rental tax on behalf of the State. Accordingly, the County has contracted with the Comptroller to provide services to the County as the collector of the Motor Vehicle Rental Tax (such contract, the “MVR Collection Contract”). The MVR Collection Contract renews automatically on an annual basis (unless earlier terminated by either party thereto). The Comptroller has been collecting the Motor Vehicle Rental Tax on the County’s behalf since its inception.

Pursuant to the MVR Collection Contract, the County is required to submit to the Comptroller a list of businesses within its jurisdiction that are subject to collection of the Motor Vehicle Rental Tax (“MVR Businesses”). On or before the twentieth day of each month, (or the next business day if such twentieth day is not a business day), MVR Businesses are required to report and send to the Comptroller the Motor Vehicle Rental Taxes on behalf of the County for the preceding month. Upon receipt, the Comptroller deposits these collections into an interest bearing account established by the Comptroller for such purpose. Under the MVR Collection Contract, the Comptroller initiates payment to the County of Motor Vehicle Rental Taxes collected on its behalf on the first business day of each month following the month of collection of such Motor Vehicle Rental Taxes. The Comptroller is permitted to retain five percent of the amounts collected to cover insufficient checks and refunds due to MVR Businesses.

McLennan County – Top 5 Motor Vehicle Rental Companies by Motor Vehicle Rental Tax Revenue (“MVRTR”) Table 5

| Vehicle Rental Company | Estimated Annual MVRTR (\$)⁽¹⁾ | % of Total MVRTR |
|-------------------------------|--------------------------------------------------|-------------------------|
| EAN Holdings (Enterprise) | 315,145 | 80.21 |
| Hertz Corporation | 56,739 | 14.44 |
| Checker Leasing | 18,172 | 4.63 |
| Douglas Nissan of Waco | 4,803 | 1.22 |
| Carpentar Bus LLC | 3,268 | 0.83 |
| Total | 398,127 | 101.33 |

⁽¹⁾ Annualized total estimate of Motor Vehicle Rental Tax Revenue based on actual collections from October 1, 2017 through May 31, 2018 and an average of the prior collections (using actual collections from September 1, 2017 through May 31, 2018 to determine monthly average) for June 1, 2018 through September 30, 2018.

[The remainder of this page is intentionally left blank.]

| Year | Motor Vehicle Rental Tax Revenues by Fiscal Year ⁽¹⁾ | | | | | | | | | | | | Average | |
|------|-----------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|------------|------------|--------------|
| | Oct. (\$) | Nov. (\$) | Dec. (\$) | Jan. (\$) | Feb. (\$) | Mar. (\$) | Apr. (\$) | May (\$) | June (\$) | July (\$) | Aug. (\$) | Sept. (\$) | Total (\$) | Monthly (\$) |
| 2017 | - | - | - | - | - | - | - | - | - | - | - | - | 23,489 | 23,489 |
| 2018 | 37,208 | 32,958 | 37,814 | 33,256 | 36,549 | 31,245 | 29,409 | 35,800 | 31,444 | - | - | - | 305,683 | 33,964 |

⁽¹⁾ Unaudited. Motor Vehicle Rental Tax commenced July 1, 2017.

⁽²⁾ For fiscal year 2018, total amount is based on actual collections from October 1, 2017 through May 31, 2018 (see "CONTINUING DISCLOSURE OF INFORMATION – Annual Reports" herein).

[The remainder of this page is intentionally left blank.]

Venue Project Fund

The County has covenanted in the Order that all Hotel Occupancy Tax Revenues and the Motor Vehicle Rental Tax Revenues shall be deposited as received in the "Venue Project Fund", which Fund is to be kept separate and apart from all other funds of the County. Within the Venue Project Fund, the County has created special accounts, into which money deposited to the Venue Project Fund shall be further deposited, as specified in the Order. These special accounts of the County within the Venue Project Fund include the following:

- (1) Collection Account;
- (2) Debt Service Account;
- (3) Debt Service Reserve Account;
- (4) Capital Improvement and Maintenance and Operations Account;
- (5) Coverage Stabilization Account; and
- (6) 2018A Construction Account.

See "Excerpts from the Order" attached hereto as Appendix A for a more detailed description of the Venue Project Fund and the accounts created and held therein.

Collection Account. The County has established and caused to be created an account within the Venue Project Fund known as the "Collection Account" (the "Collection Account"), which account will be maintained with a Depository of the County. The County has covenanted to deposit, as received, Venue Tax revenues to the credit of the Collection Account, all of which money has been pledged and appropriated by the County to the extent required to accomplish the hereinafter-described uses. The County shall, after the Closing Date (unless another time is specified herein or in the Order), transfer or cause to be transferred all amounts on deposit in the Collection Account on the 25th day of each month (or on the last business day prior thereto if such day is a Saturday, Sunday, or Legal Holiday), to the following accounts and in the following order of priority:

- (1) *First*, to the Debt Service Account (1) an amount equal to 1/6th of the total interest payable on the Bonds on the next occurring Interest Payment Date, and (2) an amount equal to 1/12th of the principal of the Bonds coming due on the next principal payment date;
- (2) *Second*, to the Debt Service Reserve Account, the amount, if any, specified in the Order with respect to periodic payments to be made to such account (see "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Debt Service Reserve Account");
- (3) *Third*, the amount necessary for payment of debt service on any junior lien obligations, or to maintain the requisite deposit to any debt service reserve established and maintained with respect thereto, in accordance with the provisions of the applicable order that authorizes the issuance of such junior lien obligations; and
- (4) *Fourth*, all amounts remaining to the Capital Improvement and Maintenance Operations Account.

Debt Service Account. The County has established and caused to be created an account within the Venue Project Fund known as the "Debt Service Account" (the "Debt Service Account"), which account is kept and maintained by the Paying Agent/Registrar. Under the Order, the Paying Agent/Registrar is authorized and directed by the County to make withdrawals from the Debt Service Account sufficient to pay the principal of and interest on the Bonds as the same become due and payable in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar by such time that interest on and principal of the Bonds is due and payable.

If, after payment of a scheduled payment obligation of the County for which funds have been deposited to the Debt Service Account in accordance with the transfers set forth above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account", there remains excess proceeds in the Debt Service Account that were otherwise designated to satisfy such obligation, then such excess proceeds will be released from the Debt Service Account and further deposited in accordance with the provisions of, and in the order of priority specified above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account".

Debt Service Reserve Account. The County has established and caused to be created an account within the Venue Project Fund known as the "Debt Service Reserve Account" (the "Debt Service Reserve Account"), which account is kept and maintained by the Paying Agent/Registrar. Money on deposit in the Debt Service Reserve Account shall be used solely and exclusively for the purposes of making transfers to the Debt Service Account in the event the money in such account is not sufficient to make transfers to the Paying Agent/Registrar on the dates and in the full amounts required by the Order. The Debt Service Reserve Account will maintain a reserve for the payment of the Bonds equal to \$1,874,964.68 (the "Debt Service Reserve Requirements") as determined in accordance with the applicable provisions of the Order. Income derived from the investment of amounts held for the credit of the Debt Service Reserve Account shall be retained therein. All funds deposited into the Debt Service Reserve Account shall be used solely for the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Bonds.

When and for so long as the cash and investments in the Debt Service Reserve Account equal the Debt Service Reserve Requirements, no deposits need be made to the credit of the Debt Service Reserve Account; but, if and when the Debt Service Reserve Account at any time contains less than the Debt Service Reserve Requirements, the County has in the Order covenanted and agreed that it shall cure the deficiency in the Debt Service Reserve Requirements by depositing to the credit of the Debt Service Reserve Account, on a monthly basis commencing in the month immediately succeeding the month in which the subject deficiency is identified and from the Pledged Revenues, at the times, and in the order of priority specified in the Order (and as described above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account"), an amount equal to not less than 1/60th of the amount of such deficiency. The County shall continue to make such monthly deposits until the balance of the Debt Service Reserve Account equals the Debt Service Reserve Requirements. The County has further covenanted and agreed that, subject only to the prior payments specified to be made in the

Order (and as primarily described above under “SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account”), the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Debt Service Reserve Requirements and to cure any deficiency in such amounts as required by the terms of the Order.

During such time as the County maintains on deposit in the Debt Service Reserve Account the Debt Service Reserve Requirements, the County may, at its option, withdraw all surplus funds in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirements and deposit such surplus in the Debt Service Account. In the event a Surety Policy or Policies (defined below) issued to satisfy all or a part of the Debt Service Reserve Requirements causes the amount then on deposit in the Debt Service Reserve Account to exceed the Debt Service Reserve Requirements, the County may transfer such excess amount to any fund or account established for the payment of or security for the Bonds (including any escrow established for the final payment of any such obligations pursuant to the provisions of applicable State law), or be used for any lawful purposes; provided, however, to the extent such excess amount represents Bond proceeds, then such amount will be transferred to the Debt Service Account or be otherwise used in accordance with applicable State law.

The County may acquire a debt service reserve surety policy or policies (“Surety Policy or Policies” or “Surety Policy”) issued by an authorized provider under applicable Texas law in amounts equal to all or part of the Debt Service Reserve Requirements in lieu of depositing cash into the Debt Service Reserve Account. The County has reserved the right to use Pledged Revenues (subject to the prior payments specified to be made in the Order and as primarily described above under “SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account”) to fund the payment of (1) periodic premiums on a Surety Policy or Policies as a part of the payment of the Venue Project operating expenses, and (2) any repayment obligation incurred by the County (including interest) to the issuer of a Surety Policy or Policies, the payment of which will result in the reinstatement of such Surety Policy or Policies, prior to making payments required to be made to the Debt Service Reserve Account pursuant to the applicable provisions of the Order to restore the balance in such account to the Debt Service Reserve Requirements. The County has purchased a Surety Policy from Assured Guaranty Municipal Corp. to fund the Debt Service Reserve Account, coverage under which is equal to the Debt Service Reserve Requirements attributable to the Bonds.

Capital Improvement and Maintenance and Operations Account. The County has established and caused to be created an account within the Venue Project Fund known as the “Capital Improvement and Maintenance and Operations Account” (the “Capital Improvement and Maintenance and Operations Account”), which account will be maintained with a Depository of the County.

Funds held in the Capital Improvement and Maintenance and Operations Account shall be properly spent, at the County’s option, for (a) payment of debt service on any bonds payable from all or part of the Venue Taxes, after first applying any funds on deposit in the debt service account relating to such series of bonds, (b) replenishing the Debt Service Requirement (or any Surety Policy or Policies acquired in the satisfaction of such requirement), (c) payment of any additional costs of completing the Venue Project, (d) costs of renovating, improving, or updating the Venue Project, (e) payment of Maintenance and Operations Expenses, and/or (f) any other lawful purpose. Such use of money on deposit in the Capital Improvement and Maintenance and Operations Account will be accomplished by, with respect to (a) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the Debt Service Account; with respect to (b) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the Debt Service Reserve Account; with respect to (c) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the 2018A Construction Account; and with respect to (d) through (f) in the preceding sentence, payment of any such expenses, in the amount and in the manner determined by a Designated Financial Officer, directly from the Capital Improvement and Maintenance and Operations Account.

Until expended, money on deposit in the Capital Improvement and Maintenance and Operations Account will be invested pursuant to the Order and all interest and income derived from deposits and investments in such account will be credited to, and any losses debited to, such account.

Coverage Stabilization Account. The County has established and caused to be created an account within the Venue Project Fund known as the “Coverage Stabilization Account” (the “Coverage Stabilization Account”), which account will be maintained with a Depository of the County. On the Closing Date, the County will transfer Existing Excess Revenues in the amount of \$750,000 to the Coverage Stabilization Account.

To the extent funds on deposit in the Debt Service Account or other sources available to the County at the due date thereof (whether by reason of maturity or prior redemption) are not sufficient for the payment of principal of or interest on the Bonds, money on deposit in the Coverage Stabilization Account, in an amount equal to the lesser of the amount of such deficiency and the balance then on deposit in such account, shall be transferred to the Debt Service Account prior to any disbursement from the Debt Service Reserve Account or any draws on a Surety Policy held therein. If not so transferred, such amount will be held within the Coverage Stabilization Account until, as evidenced by audited financial statements of the County, Pledged Revenues equal 1.20 times average annual Debt Service Requirements on the Bonds. Upon such occurrence, money held in the Coverage Stabilization Account shall be transferred to the 2018A Construction Account or the Capital Improvement and Maintenance and Operations Account, each as determined by a Designated Financial Officer. Upon transfer of all amounts from the Coverage Stabilization Account, the County will cause such account to be closed.

To the extent funds are drawn on the Coverage Stabilization Account as described in Section 19(F) of the Order, amounts disbursed from the Collection Account, after the “second” level of priority of disbursements from such account as hereinbefore described, shall be used to replenish such amounts drawn from the Coverage Stabilization Account prior to any transfer of funds authorized by Sections 19(B)(3) and (4) of the Order (being disbursements from the Collection Account at the “third” and “fourth” levels as hereinbefore described).

As additional security for the Bonds, amounts from time to time held in the Coverage Stabilization Account have been pledged under the Order as supplemental security for the Bonds.

2018A Construction Account. The County has established and caused to be created an account within the Venue Project Fund known as the “2018A Construction Account” (the “2018A Construction Account”), which account will be maintained by the County at a Depository. On the Closing Date, the County shall, to the credit of the 2018A Construction Account, (i) transfer amounts then on deposit in the construction account created and established pursuant to the order of the County authorizing the issuance of the Refunded Obligations and not heretofore spent on costs of the Venue Project and (ii) deposit Bond proceeds in the amount of \$3,921,065.89.

Money on deposit in the 2018A Construction Account will be used solely for the purpose of paying the costs of the Venue Project. Money on deposit in the 2018A Construction Account will be disbursed as determined by a Designated Financial Officer.

Until expended, money on deposit in the 2018A Construction Account shall be invested pursuant to the Order. See “Excerpts from the Order” attached hereto as Appendix A. Any net income, interest or gain received and collected from investments in the 2018A Construction Account may be used and applied by the County for the purpose of paying for costs and expenses incurred in connection with the development, financing, or construction of the Venue Project, as permitted by Chapter 334.

Upon final completion of the portion of the Venue Project for which the Bonds were issued (as determined by a Designated Financial Officer), and after payment of all amounts payable by the County therefor, any funds remaining in the 2018A Construction Account will be transferred to the Debt Service Account and any amounts required to be transferred to the Debt Service Account from Pledged Revenues (as set forth above under “SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account”) shall be offset to the extent of funds transferred to such account from the 2018A Construction Account.

INVESTOR CONSIDERATIONS, MARKET FACTORS AND THE VENUE TAXES

Each prospective investor in the Bonds should read this Official Statement in its entirety, including the Appendices hereto. The following is a discussion of certain investment considerations that should be considered by any prospective purchaser of the Bonds prior to an investment in the Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with the other parts of this Official Statement, including the Appendices hereto. Particular attention should be given to the considerations described below which, among others, could affect the payment of debt service on the Bonds, and which could also affect the marketability of the Bonds to an extent that cannot be determined.

Hotel-Industry Related Risks

The County has limited ability to respond to changes in economic or other conditions with respect to the hotel market, thereby limiting its ability to impact the generation of revenues from the Hotel Occupancy Tax toward payment of the debt service on the Bonds.

The hotel market is subject to all operating risks common to the hotel and motel industry. These risks include: changes in general economic conditions; the level of demand for rooms and related services; cyclical over-building in the hotel industry; competition from other hotels, motels, and recreational properties located outside the County and otherwise not contributing to the hotel occupancy tax collections within the County; the recurring need for renovations and refurbishment of hotel facilities; restrictive changes in zoning and similar land use laws and regulations or in health, safety, and environmental laws, rules and regulations; the inability to secure property and liability insurance to fully project against all losses or to obtain such insurance at reasonable rates; and changes in travel patterns.

The destination and marketing industry in the County, surrounding areas, and State is highly competitive. Counties and cities within the State, including the County, vie for the market share of the tourism industry, as the State’s other large markets are continually making advances to attract visitors and large conventions. As the destination and marketing industry is evolving, some competitors have substantially greater marketing and financial resources to promote their respective destination when compared to the County. There is no assurance that the County’s upward trend in hotel occupancy tax collections, as well as new hotel and overnight accommodation construction, will continue.

Changes in local economic conditions will directly affect demand for the hotel market and thus availability of hotel occupancy taxes. Such operations may be affected by casualty losses at hotels in the County or trends in hotel or tourism industries, which are further affected by political and economic events beyond the control of the County, such as business conditions affecting the area’s largest employers.

Venue Taxes

Commencement and continuation of the collection of Venue Taxes is subject to a variety of factors, none of which are within the County’s control. Collections can be adversely affected by (i) changes in State law and administrative practices governing the remittance and allocation of Motor Vehicle Rental Tax receipts, and (ii) changes in economic activity and conditions within the County and general geographic area. Many factors may affect the County’s collection of the Venue Taxes, as many of these expenditures are not necessarily considered essential, including fuel prices, general costs of living, employment levels of employers within and outside the County, individual’s discretionary spending on items that would produce revenues from the Venue Taxes, and the overall impact of the economy to individuals that would otherwise be contributing to the Venue Taxes base. The County is unable to predict what impact economic conditions such as the foregoing may have on its continued collection of revenues received from the Venue Taxes.

Venue Project Construction Risks

Construction Risks. As with all construction projects, the development and construction of the Venue Project is susceptible to various risks and uncertainties, such as: inflation of construction costs, general construction risks, including cost overruns, change orders and plan or specification modifications, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences; changes and concessions required by governmental or regulatory authorities; delays in obtaining, or inability to obtain, all licenses, permits, and authorizations required to complete and/or operate the Venue Project; and disruption of existing operations and facilities. Such events could result in delayed marketing, substantial completion, and/or occupancy (and the receipt of a certificate evidencing the right to occupy) of the Venue Project and, though the credit for the Bonds is not directly tied to Venue Project completion or performance, failure of the former or underperformance of the latter could nevertheless impact collection of Pledged Revenues and/or public sentiment and support of the Venue Project. In addition, substantial completion and occupancy of the Venue Project may be extended by reason of changes authorized by the County, delays due to unforeseen acts or neglect of the Venue Project, or by independent contractors retained in the construction thereof.

Availability of Funds. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns occur and cannot be financed on a timely basis, the completion of the Venue Project may be delayed until adequate funding is available. No assurance can be given that the costs of completing the Venue Project will not exceed the amount of available funds or that completion of the Venue Project will not be delayed beyond the current expected opening day.

Events of Force Majeure. Construction and operation of the Venue Project are at risk from events of force majeure, such as earthquakes, tornados, hurricanes or other natural disasters, epidemics, blockades, rebellions, war, riots, acts of sabotage, terrorism or civil commotion, and spills of hazardous materials, among other events. Construction or operations may also be stopped or delayed from non-casualty events such as discovery of archaeological artifacts, changes in law, delays in obtaining or renewing required permits, revocation of such permits and approvals and litigation, among other things.

Environmental Risks. There are potential risks relating to environmental liability associated with the ownership of any property. If hazardous substances are found to be located on or under the Venue Project property, such property may be held liable for costs and other liabilities relating to such hazardous substances.

Regulatory and Legislative Environment

Under various federal, State and local environmental laws, orders, and regulations, a current or previous owner or operator of real property may become liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Other federal, State and local laws exist, such as the Americans with Disabilities Act, which may require modifications to buildings or restrict certain renovations by requiring access to such buildings by disabled persons. The costs of compliance with such laws may be substantial and may materially affect the Venue Project and its operations and performance.

Non-Recourse Obligations

The Bonds are special obligations of the County payable solely from the Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS". NONE OF THE STATE OF TEXAS, THE COUNTY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE OF TEXAS, EITHER INDIVIDUALLY OR COLLECTIVELY, HAS PLEDGED OR SHALL PLEDGE OTHER REVENUES AS SECURITY FOR THE BONDS FROM FUNDS RAISED OR TO BE RAISED BY AD VALOREM TAXATION; AND NEITHER THE FAITH AND CREDIT, NOR THE TAXING POWER, OF THE STATE OF TEXAS, THE COUNTY, OR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE OF TEXAS, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM (IF ANY), OR THE INTEREST ON THE BONDS. NO INTEREST IN THE VENUE PROJECT HAS BEEN GRANTED AS SECURITY FOR THE PAYMENT OF THE BONDS.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of Policy included as APPENDIX E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

General. AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance,

infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA"), and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the dates(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On January 23, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On June 26, 2017, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Capitalization of AGM. At March 31, 2018:

- The policyholders' surplus of AGM was approximately \$2,247 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,133 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately \$1,646 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries") and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such

previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matter. AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

BOND INSURANCE GENERAL RISKS

General

As a result of the County's purchase of the Policy, the following risk factors related to municipal bond insurance policies will generally apply.

In the event of a failure of the County to make a scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, the Order provides that the Paying Agent/Registrar shall notify the Insurer, who shall then forward to the Paying Agent/Registrar the amounts necessary to make such payments as provided in and in accordance with the Policy. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the County which is recovered by the County from the holder of a Bond as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by AGM at such time and in such amounts as would have been due absent such prepayment by the County (unless AGM in its discretion chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE BONDS – Defaults and Remedies" herein). AGM may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the Bondholders. Additionally, AGM's consent may be required in connection with amendments to the Order. In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from Pledged Revenues, as provided in the Order (as described herein under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS"). In the event AGM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

The enhanced long-term ratings on the Bonds will be dependent in part on the financial strength of AGM and its claims paying ability. AGM's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of AGM and of the ratings on the Bonds, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. See the disclosure described in "RATINGS" herein.

The obligations of AGM under the Policy are unsecured contractual obligations of AGM and in the event of a failure to pay by AGM, the remedies available may be limited by applicable insurance or bankruptcy law. None of the County, the Financial Advisor, or the Underwriters have made independent investigation into the claims paying ability of AGM, and no assurance or representation regarding the financial strength or projected financial strength of AGM is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's, S&P, and Fitch Ratings ("Fitch", and together with Moody's and S&P, the "Rating Agencies") have over the past several years downgraded, and/or placed on negative credit watch, the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible.

In addition, past events in the credit markets have had substantial negative effects on the bond insurance business. These events could be viewed as having a material adverse effect on the claims-paying ability of these bond insurers, including AGM, for the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of any such bond insurer, including AGM, to pay principal and interest on the Bonds and the claims-paying ability of any such bond insurer, including AGM, particularly over the life of the Bonds.

RATINGS

S&P Global Ratings ("S&P") has assigned its underlying, unenhanced rating of "A-" to the Bonds. S&P has assigned its municipal bond rating of "AA" to the Bonds with the understanding that concurrently with the delivery of the Bonds, the Policy will be issued by AGM. See "BOND INSURANCE" herein. The ratings of the Bonds by S&P reflects only the view of such company at the time the rating is given, and the County 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 sole and absolute 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 Bonds.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is 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 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. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in Appendix D hereto.

For taxable years that began before January 1, 2018, interest on the Bonds 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.

In rendering the foregoing opinions, Bond Counsel will rely upon the sufficiency certificate of the County's Financial Advisor as to the defeasance of the Refunded Obligations and upon the representations and certifications of the County made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the County subsequent to the issuance of the Bonds. The Order contains covenants by the County with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express 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 Bonds. 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 County 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 municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the County as the "taxpayer," and the owners of the Bonds 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 Bonds, the County may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds 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 Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax 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. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds 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 Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond 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 his taxable 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, 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 Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

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

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. 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 Bond. 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 Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL MATTERS

The County will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the "Initial Bond" relating to the Bonds is a valid and legally binding, special obligation of the County, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Order, are valid and legally binding obligations of the County and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the County in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the caption "PLAN OF FINANCE – Authorization and Purposes", "PLAN OF FINANCE – Refunded Obligations – Legal Defeasance and Redemption of the Refunded Obligations", "THE BONDS" (except under the subcaptions "Book-Entry-Only System", "Defaults and Remedies", "Payment Record" and "Delivery", as to which no opinion is expressed), "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS" (except with respect to any tables or other numerical or statistical information appearing thereunder, as to which no opinion is expressed), "TAX MATTERS", "LEGAL MATTERS" (except for the last sentence of the first paragraph thereof, as to which no opinion is expressed), "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), and "OTHER PERTINENT INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. 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 Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds of each series of Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain matters will be passed upon for the Underwriters by their counsel Winstead P.C., San Antonio, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds 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.

INVESTMENT POLICIES

Investments

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

Legal Investments

State law permits the County to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued or assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) certificates of deposit (a) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256 Texas Government Code) that are issued by or through an institution that either has its main office or a branch in the State, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for County deposits or (b) where the funds are invested by the County through (i) a broker that has its main office or a branch office in the State and is selected from a list adopted by the County as required by law or (ii) a depository institution that has its main office or a branch office in the State that is selected by the County, (c) the broker or the depository institution selected by the County 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 County, (d) 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 (e) the County appoints the depository institution selected under (b) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the County with respect to the certificates of deposit issued for the account of the County; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (a) require the securities being purchased by the County or cash held by the County to be pledged to the County, held in the County's name, and deposited at the time the investment is made with the County or with a third party selected and approved by the County, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2A-7; and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

Entities such as the County may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the County, held in the County's name and deposited at the time the investment is made with the County or a third party designated by the County; (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.

The County may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The County 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 County retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the County must do so by order, ordinance, or resolution.

The County is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the

principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under State law, the County is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for County funds, maximum allowable stated maturity of any individual investment owned by the County and the maximum average dollar-weighted maturity allowed for pooled fund groups. All County 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, County 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 County must submit an investment report detailing: (1) the investment position of the County, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest County funds without express written authority from the Court.

Additional Provisions

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

Current Investments

State law does not require the Issuer to periodically mark its investment to market price, and the Issuer does not do so, other than annually upon the conclusion of each fiscal year, for purpose of compliance with applicable accounting policies concerning the contents of the Issuer's audited financial statements. Given the nature of its investments, the Issuer does not believe that the market value of its investments differs materially from book value.

[The remainder of this page is intentionally left blank.]

As of April 30, 2018 (unaudited), the Issuer’s investable funds were invested as show below:

| Fund and Investment Type | Governmental Operating Fund | Percentage of Total Portfolio⁽¹⁾ |
|---------------------------------|------------------------------------|----------------------------------------------------|
| Certificates of Deposit | 25,675,148 | 38% |
| TexPool/TexStar | 12,500,000 | 18 |
| US Govt Agencies & Treasuries | 24,045,266 | 36 |
| Collateralized Savings Accounts | <u>5,381,333</u> | 8 |
| Total Investments | <u>67,601,747</u> | <u>100%</u> |

Source: McLennan County, Texas.

⁽¹⁾ Amounts may not total due to rounding.

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

The Texas State Comptroller of Public Accounts exercises oversight responsibility over the Texas Local Government Investment Pool (“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 both of participants in TexPool and of the other persons who do not have a business relationship with TexPool. The advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated “AAA” by S&P. TexPool operates in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

NO-LITIGATION

On the date of delivery of the Bonds to the Underwriters, the County will execute and deliver to the Underwriters a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would adversely affect the provisions made for their payment or security, or in any manner questioning the validity of the Bonds.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the County has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The County is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the County will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (the “MSRB”). The information provided to the MSRB will be available to the public free of charge via the internet through its EMMA system at www.emma.msrb.org.

Annual Reports

Under State law, including, but not limited to, Chapter 115, as amended, Texas Local Government Code, the County must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified or permitted public accountant and must maintain each audit report with the County Auditor. The County’s fiscal records and audit reports are available for public inspection during the regular business hours of the County Auditor. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, as amended, Texas Government Code, Chapter 552. Thereafter, any person may obtain copies of these documents upon submission of a written request to the County Auditor at the McLennan County Auditor, 214 North 4th Street, Suite 100, Waco, Texas 76701, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The County will file certain updated financial information and operating data with the MSRB annually. The information to be updated with respect to the County includes all quantitative financial information and operating data of the general type included in this Official Statement. The information is of the general type included in Tables 1 through 7 appearing in the body of this Official Statement and in Appendix C. The County will update and provide this information within six months after the end of each fiscal year ending in or after 2018. The County will file the updated information with the MSRB through its EMMA system.

The County may file updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the County commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the County will

provide unaudited financial statements by the required time, and will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the County may be required to employ from time to time pursuant to state law or regulation.

The County's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year, unless the County changes its fiscal year. If the County changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The County will file with the MSRB notice of any of the following events with respect to the Bonds 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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bonds calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the County, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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/registrars or the change of name of a paying agent/registrars, if material. Neither the Bonds nor the Order make any provision for liquidity enhancement. In addition, the County will provide timely notice of any failure by the County to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The County 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 County 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 County, 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 County.

Availability of Information

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the County in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

In relation to debt of the County issued prior to the EMMA Effective Date, the County remains obligated to make any required information filings, including material event notices, with the Texas state information repository (the "SID") so long as it is required to do so pursuant to the terms of any undertakings made under the Rule. Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") was designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the County receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the County has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

The County has agreed to update information and to provide notices of specified events only as described above. The County 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 County makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The County 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 and Beneficial Owners of Bonds may seek a writ of mandamus to compel the County to comply with its agreement.

This continuing disclosure agreement may be amended by the County 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 County, but only if (1) the provisions, as so amended, would have permitted a purchaser to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any

other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the County (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and Beneficial Owners of the Bonds. The County 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 Bonds in the primary offering of the Bonds. If the County amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the past five years, the County has complied in all material respects with its previous continuing disclosure agreements made by it in accordance with the Rule.

OTHER PERTINENT INFORMATION

Authenticity of Financial Data and Other Information

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

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, the Rule.

Registration and Qualification of Bonds for Sale

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency (see "RATINGS" herein). In addition, various provisions of the Texas Finance Code, as amended, provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The County 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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The County has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Financial Advisor

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the Financial Advisor to the County in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor, in its capacity as Financial Advisor to the County, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the County for the investment of Bond proceeds or other funds of the County upon the request of the County.

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, and as part of, their responsibilities to the County 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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds at a price equal to the initial offering prices, as shown on the page ii hereof, less an underwriting discount of \$234,826.25, and no accrued interest on the Bonds.

The Underwriters' obligations are subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering price, and such public prices may be changed from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), as one of the Underwriters of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through Wells Fargo Bank, NA Municipal Products Group, a separate identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934, as amended.

Financial Statements

Appendix C to this Official Statement contains the County's annual financial report for the fiscal year ended September 30, 2017. These financial statements have been audited by Pattillo, Brown & Hill, L.L.P., Waco, Texas, independent certified public accountants.

Use of Information in the Official 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 County. 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 or solicitation.

Forward Looking Statements and Investor Considerations

The statements contained in this Official Statement, and in any other information provided by the County, that are not purely historical, are forward-looking statements, including statements regarding the County'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 County on the date hereof, and the County assumes no obligation to update any such forward-looking statements. It is important to note that the County'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 County. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

In considering the matters set forth in this Official Statement, prospective investors should carefully review all information included herein (particularly, the descriptions regarding the County's historical and prospective collection of Venue Tax revenue appearing under the caption "INVESTOR CONSIDERATIONS, MARKET FACTORS AND THE VENUE TAXES" and the lien on and pledge of such revenues as described under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS") to identify any investment considerations. Potential investors should be thoroughly familiar with this entire Official Statement and the appendices hereto, and should have accessed whatever additional financial and other information any such investor may deem necessary, prior to making an investment decision with respect to the Bonds.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the description and statements of or pertaining to the County contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the County 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 circumstances under which they are made, not misleading; (c) insofar as the description and statements, including financial data, of or pertaining to entities, other than the County, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the County believes to be reliable and that the County has no reason to believe that they are untrue in any material respect; (d) authorized representatives of the County received and reviewed copies of the Official Statement for the purpose of confirming that the information therein pertaining to the County is accurate and complete; and (e) there has been no material adverse change in the financial condition of the County since September 30, 2017, the date of the last audited financial statements of the County.

Authorization of the Official 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 County.

[The remainder of this page is intentionally left blank.]

This Official Statement has been approved by the Commissioners Court of the County for distribution in accordance with provisions of the United States Securities and Exchange Commission's Rule codified at 17 C.F.R. Section 240.15c-12, as amended.

MCLENNAN COUNTY, TEXAS

/s/ Scott Felton
County Judge
McLennan County, Texas

ATTEST:

/s/ Andy Harwell
County Clerk
McLennan County, Texas

(this page intentionally left blank)

SCHEDULE I

TABLE OF REFUNDED OBLIGATIONS

| <u>Series</u> | <u>Maturity Date</u> | <u>Interest Rate (%)</u> | <u>Par Amount (\$)</u> | <u>Call Date</u> | <u>Call Price (%)</u> |
|--------------------------------------------------------------------------------------|----------------------|--------------------------|------------------------|------------------|-----------------------|
| McLennan County, Texas Venue Project Revenue Bonds (Combined Venue Tax), Series 2018 | April 1, 2019 | 2.20% | 31,500,000.00 | July 12, 2018 | 100% |

(this page intentionally left blank)

APPENDIX A

Excerpts from the Order

(this page intentionally left blank)

SECTION 1 Definitions.

For all purposes of this Order, except as otherwise expressly provided or unless the context otherwise requires, (a) the terms defined in this Section have the meanings assigned to them in this Section, certain terms defined in other sections of and the preamble to this Order have the meanings assigned to them in such sections and preamble, and all such terms include the plural as well as the singular; (b) all references in this Order to designated “*Sections*,” “*Schedules*,” “*Exhibits*,” and other subdivisions are to the designated Sections, Schedules, Exhibits, and other subdivisions of this Order as originally adopted; and (c) the words “*herein*,” “*hereof*,” and “*hereunder*” and other words of similar import refer to this Order as a whole and not to any particular Section or other subdivision.

2017 Election has the meaning stated in the preamble of this Order.

2018A Construction Account has the meaning stated in Section 19.G hereof.

Acts means, together, Chapter 334, Chapter 1207, and Chapter 1371.

Additional Combined Venue Tax Bonds means bonds, notes, warrants, certificates of obligations or other Debt hereinafter issued by the Issuer that are payable, in whole or in part, from and equally and ratably secured by Pledged Revenues.

Bonds means the “McLennan County, Texas Venue Project Revenue and Refunding Bonds (Combined Venue Tax), Series 2018A”, issued pursuant to this Order in the original principal amount of \$35,510,000.

Book-Entry Only Bond means any Bond registered in the name of the Securities Depository or its nominee.

Business Day for the Bonds or portions thereof means any day other than (1) a Saturday or a Sunday, (2) a legal holiday or the equivalent on which banking institutions generally are authorized or required to close in the Place of Payment or in the city in which is located the corporate trust office of the Paying Agent/Registrar, or (3) a day on which the New York Stock Exchange is closed.

Capital Improvement and Maintenance and Operations Account has the meaning stated in Section 19.E hereof.

Chapter 1371 has the meaning stated in the preamble of this Order.

Chapter 334 has the meaning stated in the preamble of this Order.

Closing Date means the date of physical delivery of the Initial Bond against payment in full by the Purchasers.

Code means the Internal Revenue Code of 1986, as amended and in force and effect on the Closing Date.

Collection Account has the meaning stated in Section 19.B hereof.

Construction Account means the account of the Venue Project Fund titled “Construction Account” created in Section 19.G of the Refunded Obligations Order into which Venue Project construction proceeds

of the Refunded Obligations were deposited upon delivery of such Refunded Obligations and were used for authorized purposes.

County or Issuer means McLennan County, Texas, and, where appropriate, the Court.

Coverage Stabilization Account has the meaning stated in Section 19.F hereof

Dated Date has the meaning stated in Section 8 hereof.

Debt means all indebtedness of the Issuer payable from any revenues pledged hereunder incurred or assumed by the Issuer for borrowed money and all other financing obligations of the Issuer payable from such revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet. For the purpose of determining Debt, there shall be excluded any particular Debt if, upon or prior to the maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. This specifically includes any Bonds defeased pursuant to Section 18 hereof. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the Issuer in prior Fiscal Years.

Debt Service Account has the meaning stated in Section 19.C hereof.

Debt Service Requirements means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently published edition of The Bond Buyer (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by The Bond Buyer (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds or in the manner permitted under Section 1371.057(c), as amended, Texas Government Code, as the same relates to interim or non-permanent indebtedness, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the Issuer under such hedge agreement from the amounts payable by the Issuer under such hedge agreement and such obligations.

Debt Service Reserve Account has the meaning stated in Section 19.D hereof.

Debt Service Reserve Requirements has the meaning stated in Section 19.D hereof.

Depository means one or more official depository banks of the Issuer.

Designated Financial Officer means the County Judge of the County, the County Treasurer of the County, the County Clerk of the County, the County Auditor of the County, or such other financial or accounting official of the Issuer so designated by the Court.

DTC has the meaning stated in Section 6 hereof.

DTC Participant has the meaning stated in Section 6 hereof.

DTC System has the meaning stated in Section 6 hereof.

Existing Excess Revenues means revenues received from the imposition of the Hotel Occupancy Tax and the Motor Vehicle Tax from their respective dates of implementation (occurring on or around July 1, 2017) and deposited into the Venue Project Fund prior to the Closing Date.

Fiscal Year means the twelve-month accounting period used by the Issuer in connection with the operation of the Issuer, currently ending on September 30 of each year, which may be any 12 consecutive month period established by the Issuer, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

Government Obligations shall mean (a) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (c) subject to the prior written consent of the Insurer, noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (d) subject to the prior written consent of the Insurer, any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

Holder of any Bond means the Person in whose name such Bond is registered in the Security Register.

Hotel means, as defined in the Venue Tax Imposition Order, a building in which members of the public obtain sleeping accommodations for consideration, including a hotel, motel, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed and breakfast; provided, however, that such term does not include (i) a hospital, sanitarium, or nursing home, (ii) a dormitory or other housing facility owned or leased and operated by an institution of higher education or a private or independent institution of higher education, as those terms are defined by Section 61.003, as amended, of the Texas Education Code, and used by the institution for the purpose of providing sleeping accommodations for persons engaged in an educational program or activity at the institution, or (iii) an oilfield portable unit, as defined by Section 152.001, as amended, Texas Tax Code; provided further, however, that the term does include a short-term rental in which the rental of all or part of a residential property to a person who is not a permanent resident under Section 156.101, as amended, Texas Tax Code.

Hotel Occupancy Tax has the meaning stated in the preamble of this Order.

Hotel Occupancy Tax Revenues means the revenues realized by the County from its imposition and collection of the Hotel Occupancy Tax, to include penalties and interest for late payments and other payment or reporting-related noncompliance, but excluding amounts withheld for payment of collection costs owed to third parties and rebates, exceptions, and reimbursements as may from time to time be required by applicable law, all pursuant and subject to, and in accordance with, the Venue Tax Imposition Order.

Indirect Participant has the meaning stated in Section 6 hereof.

Initial Bond has the meaning stated in Section 8 hereof.

Insurance Policy means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

Insurer means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

Interest Payment Date for any Bond or portion thereof means the date specified in such Bond as a fixed date on which interest on such Bond or portion is due and payable, being (initially) December 1, 2018 and, thereafter, June 1 and December 1 of each year while the Bonds are Outstanding.

Legal Holiday means a day on which a Paying Agent/Registrar for the Bonds is authorized by law or executive order to close.

Maintenance and Operating Expenses means the expenses of operation and maintenance of the Venue Project, *including* all salaries, labor, materials, repairs and extensions (including capital repairs and extensions) necessary to maintain and operate the Venue Project.

Motor Vehicle, as defined in the Venue Tax Imposition Order, means a self-propelled vehicle designed principally to transport persons or property on a public roadway and includes a passenger car, van, station wagon, sports utility vehicle, and truck; provided, however, the term does not include a (a) trailer, semitrailer, house trailer, truck having a manufacturer's rating of more than one-half ton, or road-building machine; (b) device moved only by human power; (c) device used exclusively on stationary rails or tracks; (d) farm machine; or (e) mobile office.

Motor Vehicle Rental Tax has the meaning stated in the preamble of this Order.

Motor Vehicle Rental Tax Revenues means the revenues realized by the County from its imposition and collection of the Motel Vehicle Rental Tax, to include penalties and interest for late payments and other payment or reporting-related noncompliance, but excluding amounts withheld for payment of collection costs owed to third parties and rebates, exceptions, and reimbursements as may from time to time be required by applicable law, all pursuant and subject to, and in accordance with, the Venue Tax Imposition Order.

Opinion of Counsel means a written opinion of counsel of nationally recognized standing in the field of municipal bond law.

Order means this order adopted by the Court.

Outstanding means, when used in this Order with respect to Bonds, as of the date of determination, all Bonds issued and delivered under this Order, except:

- 1) **Cancelled Bonds:** those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;
- 2) **Defeased Bonds:** those Bonds for which payment has been duly provided by the Issuer in accordance with the provisions of Section 18 hereof by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Obligations, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to Stated Maturity; provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Order or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and
- 3) **Replaced Bonds:** those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 11.

Paying Agent/Registrar means the financial institution specified in Section 4 hereof or its herein permitted successors and assigns.

Person means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

Place of Payment for Bonds means the city in which is located the office designated by the Paying Agent/Registrar at which principal of the Bonds shall be paid at Stated Maturity, initially Austin, Texas.

Pledged Revenues means (a) a first and prior lien on and pledge of the Hotel Occupancy Tax Revenues, (b) a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues, and (c) such other money, income, revenues or other property as may be specifically included in such term in any County order supplemental to this Order.

Predecessor Bond has the meaning stated in Section 7 hereof.

Purchasers shall mean the initial purchasers of the Bonds named in Section 12 hereof.

Qualified Surety Bond Provider means an insurance company which is authorized by Texas law to provide a debt service reserve surety policy or similar financial product, such as the Surety Bond, to satisfy all or any part of the Debt Service Requirements.

Rating Service means each nationally recognized securities rating service which at the time of determination has a credit rating assigned to the Bonds, initially being S&P.

Record Date means the date for determining the person to whom is owed interest on any Bond, being the fifteenth day of the calendar month preceding the month in which occurs the subject Interest Payment Date.

Refunded Obligations has the meaning stated in the preamble of this Order.

Refunded Obligations Order means the order of the Court adopted on April 10, 2018 authorizing the issuance of the Refunded Obligations.

Representation Letter has the meaning stated in Section 6 hereof.

S&P means S&P Global Ratings, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer.

Securities Depository means The Depository Trust Company or any successor Person appointed by order of the Court to act as Holder of the Bonds, directly or through a nominee, to maintain a system for recording and transferring beneficial interests in such Bonds and distributing payments thereon and notices in respect thereof.

Security Register has the meaning stated in Section 4 hereof.

Special Payment Date has the meaning stated in Section 4 hereof.

Special Record Date has the meaning stated in Section 4 hereof.

Stated Maturity has the meaning stated in Section 3 hereof.

Subordinate Pledged Revenues means (a) a subordinate lien on and pledge of the Hotel Occupancy Tax Revenues, which lien on and pledge of revenues is immediately junior and inferior to the lien thereon and pledge thereof included in and a part of the Pledged Revenues, and (b) a subordinate lien on and pledge of the Motor Vehicle Rental Tax Revenues, which lien on and pledge of revenues is immediately junior and inferior to the lien thereon and pledge thereof included in and a part of the Pledged Revenues.

Surety Bond means the surety bond(s), debt service reserve insurance policy, or similar policies, acquired by the Issuer from a Qualified Surety Bond Provider and deposited into the Debt Service Reserve Account of the Venue Project Fund at Closing to satisfy the Debt Service Requirements relating to the Bonds, subject to the limitations set forth in the Surety Bond and the limitations of the Qualified Surety Bond Provider.

Surety Policy means an Insurance Agreement between the Issuer and Qualified Surety Bond Provider pursuant to which the Issuer reimburses the Qualified Surety Bond Provider amounts drawn under the Surety Bond.

Venue Project means, collectively, those projects of the County undertaken pursuant to authority granted under Chapter 334 and the results of the 2017 Election, including specifically planning, acquiring, establishing, developing, constructing, renovating, and financing new and existing facilities at the location of the Heart of Texas Fairgrounds, surrounding property, and any related infrastructure of the type described and defined by Chapter 334, all as further described in the County proceedings relating to the 2017 Election.

Venue Project Fund has the meaning stated in Section 19.A hereof.

Venue Project Resolution has the meaning stated in the preamble of this Order.

Venue Tax Imposition Order has the meaning stated in the preamble of this Order.

SECTION 17 Security.

A. Pledge of Pledged Revenues. Payment of the principal of and interest on the Bonds shall be equally and ratably secured by and payable solely from a first and prior lien on and pledge of the Pledged Revenues and such other money, income, and revenues held in one or more of the accounts of the Venue

Project Fund which may be specifically pledged to the Bonds as set forth in Section 19 hereof. In connection therewith, the Issuer hereby grants a first and prior lien on and pledge of the Pledged Revenues for such purpose. Except as hereinbefore stated, the Bonds are not secured by or payable from a mortgage or deed of trust on any of the Issuer's properties, whether real, personal, or mixed.

B. *Perfection.* Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the Issuer under Subsection A of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while any Bonds are outstanding and unpaid such that the pledge of Pledged Revenues granted by the Issuer as security therefor is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of such Bonds the perfection of the security interest in the applicable pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in the described pledge to occur.

C. *No Ad Valorem Tax Support.* The Bonds are special, limited obligations of the Issuer payable solely from the Issuer's revenues pledged to the payment thereof (as described in Subsection A of this Section), and the Holders thereof shall never have the right to demand payment out of funds raised from any other source (including, but not limited to, funds to be raised by ad valorem taxation).

SECTION 19 *Venue Project Fund and Accounts.*

A. *The Venue Project Fund.* In the Venue Project Resolution, the Issuer authorized the creation of a County fund known as the "Venue Project Fund" (the *Venue Project Fund*), which is the "Multipurpose Arena Venue Project Fund" contemplated in County Resolution No. 2017-001 adopted by the Issuer on January 17, 2017 and is a fund of the type described and required by Section 334.042, as amended, of Chapter 334. The Issuer has since caused the establishment of and now maintains the Venue Project Fund and to such Fund has deposited all receipts of Hotel Occupancy Tax Revenues and Motor Vehicle Rental Tax Revenues since their respective imposition.

The Venue Project Resolution provides details regarding the creation and establishment of the Venue Project Fund, as well as the creation of certain accounts and the disposition and use of revenues from time to time deposited therein. The Venue Project Resolution also specifies that characteristics of the Venue Project Fund and such specified method of deposited revenue may be amended by subsequent Issuer action, including through an order such as the Refunded Obligations Order. In reliance on this authority, the Issuer amended the Venue Project Resolution with respect to the treatment of the Venue Project Fund, including the establishment of accounts therein and disposition of deposits thereto. Such amendments are hereby ratified, confirmed and continued in the manner hereafter provided.

The Venue Project Fund shall be kept separate and apart from all other funds of the Issuer. Revenues received from time to time by the Paying Agent/Registrar for deposit to the various accounts of the Venue Project Fund, as further described below, shall be immediately deposited therein, with further transfers therefrom to be made by the Paying Agent/Registrar at the times and in the manner herein specified.

The Issuer hereby confirms the prior creation and affirms its covenant to maintain the Venue Project Fund and the special accounts therein (which accounts shall be administered in the manner specified in this Section):

- 1) Collection Account;

- 2) Debt Service Account;
- 3) Debt Service Reserve Account;
- 4) Capital Improvement and Maintenance and Operations Account;
- 5) Coverage Stabilization Account; and
- 6) 2018A Construction Account.

The Issuer hereby covenants to the Holders of the Bonds that all Hotel Occupancy Tax Revenues and all Motor Vehicle Rental Tax Revenues, as well as any other revenues hereafter identified as additional security for the Bonds, shall be deposited upon receipt to the various accounts in the manner, and for further distribution in the manner and amounts and at the times, as hereinafter described.

B. *The Collection Account.* The County hereby confirms that it previously established and caused to be created, and hereby ratifies such prior creation and covenants to maintain, an account within the Venue Project Fund known as the “Collection Account” (the Collection Account). Hotel Occupancy Tax Revenues and Motor Vehicle Rental Tax Revenues, respectively, shall be deposited, as received to the Venue Project Fund, to the credit of the Collection Account.

The County shall, after the Closing Date (unless another time is specified herein), transfer (or cause to be transferred) all amounts on deposit in the Collection Account of the Venue Project Fund on the 25th day of each month (or on the last business day prior thereto if such day is a Saturday, Sunday, or Legal Holiday), to the following accounts and in the following order of priority:

- 1) First, (i) to the Debt Service Account (1) an amount equal to 1/6th of the total interest payable on the Bonds on the next occurring Interest Payment Date, and (2) an amount equal to 1/12th of the principal of the Bonds coming due on the next principal payment date;
- 2) Second, to the Debt Service Reserve Account the amount, if any, specified in Section 19.D hereof.
- 3) Third, the amount, if necessary, for payment of debt service on any junior lien obligations, or to maintain the requisite deposit to any debt service reserve established and maintained with respect thereto, in accordance with the provisions of the applicable order which authorizes the issuance of such junior lien obligations;
- 4) Fourth, all remaining amounts to the Capital Improvement and Maintenance and Operation Account.

This account shall be maintained by the County at a Depository.

C. *The Debt Service Account.* The County hereby confirms that is has previously established and caused to be created, and hereby ratifies such prior creation and convents to maintain, an account within the Venue Project Fund known as the “Debt Service Account” (the *Debt Service Account*), for the purposes of paying the interest on and to provide a sinking fund for the payment, redemption, and retirement of the Bonds.

The Debt Service Account shall be kept and maintained by the Paying Agent/Registrar. The Paying Agent/Registrar is hereby authorized and directed to make withdrawals from the Debt Service Account sufficient to pay the principal of and interest on the Bonds as the same become due and payable and shall cause to be transferred to the Paying Agent/Registrar from money on deposit in the Debt Service Account, an amount sufficient to pay the amount of principal and/or interest stated to mature on the Bonds, such transfer of funds to the Paying Agent/Registrar to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar on or before the last business day next preceding each interest and principal payment date for the Bonds.

If, after the payment of a scheduled payment obligation of the Issuer for which funds have been deposited to the Debt Service Account in accordance with Section 19.B hereof, there remains excess proceeds in the Debt Service Account that were otherwise designated to satisfy such paid obligation, then such excess proceeds shall be released from the Debt Service Account and further deposited in accordance with the provisions of, and in the order of priority herein specified, in Section 19.B hereof.

This account shall be maintained by the County with the Paying Agent/Registrar.

D. *The Debt Service Reserve Account.* The County hereby confirms that it has previously established and caused to be created, and hereby ratifies such prior creation and covenants to maintain, an account within the Venue Project Fund to be known as the “Debt Service Reserve Account” (the *Debt Service Reserve Account*), for the purposes of making transfers to the Debt Service Account in the event the money in such account is not sufficient to make transfers therefrom to the Paying Agent/Registrar on the dates and in the full amounts required by this Order.

The Debt Service Reserve Account will maintain a reserve for the payment of the Bonds equal to \$1,874,964.68 (the *Debt Service Reserve Requirements*), which amount is equal to the average annual Debt Service Requirements on the Bonds. Income derived from the investment of amounts held for the credit of the Debt Service Reserve Account shall be retained therein. All funds deposited into the Debt Service Reserve Account shall be used solely for the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Bonds.

The County may acquire a debt service reserve surety policy or policies issued by an authorized provider under applicable Texas law in amounts equal to all or part of the Debt Service Reserve Requirements for the Bonds in lieu of depositing cash into the Debt Service Reserve Account. The County reserves the right to use Pledged Revenues, at the order of priority specified in Section 19.B(2) hereof, to fund the payment of (1) periodic premiums on such a debt service reserve surety policy as a part of the payment of the Venue Project operating expenses, and (2) any repayment obligation incurred by the County (including interest) to the provider thereof, the payment of which will result in the reinstatement of such debt service reserve surety policy, prior to making payments required to be made to the Debt Service Reserve Account pursuant to the provisions of Section 19.B of this Order to restore the balance in such fund to the Debt Service Reserve Requirements.

When and for so long as the cash and investments in Debt Service Reserve Account equal the Debt Service Reserve Requirements, no deposits need be made to the credit of the Debt Service Reserve Account; but, if and when the Debt Service Reserve Account at any time contains less than the Debt Service Reserve Requirements, the Issuer covenants and agrees that it shall cure the

deficiency in the Debt Service Reserve Requirements by depositing to the credit of the Debt Service Reserve Account, on a monthly basis commencing in the month immediately succeeding the month in which the subject deficiency is identified and from the Pledged Revenues, at the times, and in the order of priority specified in Section 19.B(2), an amount equal to not less than 1/60th of the amount of such deficiency. The Issuer shall continue to make such monthly deposits until the balance of the Debt Service Reserve Account equals the Debt Service Reserve Requirements. The Issuer further covenants and agrees that, subject only to the prior payments to be made to the Debt Service Account, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Debt Service Reserve Requirements and to cure any deficiency in such amounts as required by the terms of this Order.

During such time as the Issuer maintains on deposit in the Debt Service Reserve Account the Debt Service Reserve Requirements, the Issuer may, at its option, withdraw all surplus funds in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirements and deposit such surplus in the Debt Service Account. In the event a debt service reserve surety policy issued to satisfy all or a part of the Debt Service Reserve Requirements the amount then on deposit in the Debt Service Reserve Account causes the balance of such account to exceed the Debt Service Reserve Requirements, the County may transfer such excess amount to any fund or account established for the payment of or security for the Bonds (including any escrow established for the final payment of any such obligations pursuant to the provisions of applicable Texas law), or be used for any lawful purposes; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Debt Service Account or be otherwise used in accordance with then-applicable Texas law.

In connection with its issuance of the Bonds, the County has obtained the Surety Bond from the Insurer to satisfy the Debt Service Reserve Requirements attributable to the Bonds. In connection therewith, the County has entered into the Insurance Agreement, the form and substance of which is hereby approved. As permitted by the provisions of the second paragraph of this Section 19.D, amounts owed to the Insurer under the Insurance Agreement shall be paid from Pledged Revenues at the level of priority specified in Section 19.B(2) hereof. Each Designated Financial Official is hereby authorized to execute the Insurance Agreement on the County's behalf as the act and deed of the County.

This account shall be maintained by the County with the Paying Agent/Registrar.

E. *The Capital Improvement and Maintenance and Operations Account.* The County hereby confirms that it has previously established and caused to be created, and hereby ratifies such prior creation and covenants to maintain, an account within the Venue Project Fund known as the "Capital Improvement and Maintenance and Operations Account" (the Capital Improvement and Maintenance and Operations Account). The Issuer shall transfer funds to the Capital Improvement and Maintenance and Operations Account, if at all, pursuant to Section 19.B(4) hereof.

The funds in the Capital Improvement and Maintenance and Operations Account shall be properly spent, at the Issuer's option, for (a) payment of debt service on the Bonds, (b) replenishing the Debt Service Requirements (or any debt service reserve surety policy acquired in the satisfaction of such requirement), (c) payment of additional Venue Project costs, (d) costs of renovating, improving, or updating the Venue Project, (e) payment of Maintenance and Operations Expenses, and/or (f) any other lawful purpose. Such use of money on deposit in the Capital Improvement and Maintenance and Operations Account shall be accomplished by, with respect to (a) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the Debt Service Account; with respect to (b) in the preceding sentence, transfer

of the amount of money determined by a Designated Financial Officer to the Debt Service Reserve Account; with respect to (c) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the Construction Account; and with respect to (d) through (f) in the preceding sentence, payment of any such expense, in the amount and in the manner determined by a Designated Financial Officer, directly from the Capital Improvement and Maintenance and Operations Account.

Until expended, money on deposit in the Capital Improvement and Maintenance and Operations Account shall be invested pursuant to this Order and all interest and income derived from deposits and investments in this account shall be credited to, and any losses debited to, this account.

This account shall be maintained by the County at a Depository.

F. *The Coverage Stabilization Account.* The County hereby confirms that it has previously established and caused to be created, and hereby ratifies such prior creation and covenants to maintain, an account within the Venue Project Fund known as the “Coverage Stabilization Account” (the *Coverage Stabilization Account*). On the Closing Date, Existing Excess Revenues in the amount of \$750,000 will be on deposit in the Coverage Stabilization Account.

To the extent funds on deposit in the Debt Service Account or other sources available to the County at the due date thereof (whether by reason of maturity or prior redemption) are not sufficient for the payment of principal of or interest on the Bonds, money on deposit in the Coverage Stabilization Account shall be transferred to the Debt Service Account prior to any disbursement from the Debt Service Reserve Account or any draws on the Surety Bond.

If not transferred in the manner described above, such amount will be held within this account until, as evidenced by audited financial statements of the County, Pledged Revenues equal 1.20 times average annual Debt Service Requirements on the Bonds. Upon such occurrence, money held in this account shall be transferred to the Construction Account or the Capital Improvement and Maintenance and Operations Account, each as determined by a Designated Financial Officer. Upon the transfer of all amounts from the Coverage Stabilization Account in accordance herewith, the Issuer shall cause this account to be closed.

As additional security for the Bonds, amounts from time to time held in the Coverage Stabilization Account are hereby pledged as supplemental security for the Bonds.

This account shall be maintained by the County at a Depository.

G. *The Construction Account.* The Issuer hereby establishes and causes to be created an account within the Venue Project Fund to be known as the “2018A Venue Project Construction Account” (the 2018A Construction Account). On the Closing Date, the Issuer shall (i) transfer amounts then on deposit in the Construction Account and (ii) deposit Bond proceeds in the amounts and in the manner specified in Section 21 hereof, each to the credit of the 2018A Construction Account. Upon such transfer described in (i) above, the Construction Account shall be closed.

Money on deposit in the 2018A Construction Account shall be used solely for the purpose of paying the costs of the Venue Project and, to the extent of unavailability of funds in the Debt Service Account, Coverage Stabilization Account, Debt Service Reserve Account or other sources available to the County at the due date thereof (whether by reason of maturity or prior redemption), payment of principal of or interest on the Bonds. Money on deposit in the 2018A Construction

Account shall be disbursed as determined by a Designated Financial Officer; provided, however, that in the event that money held in the 2018A Construction Account is used to pay debt service on the Bonds in the manner heretofore described, such use shall be accomplished by the transfer of the requisite amount of funds from the 2018A Construction Account to the Debt Service Account.

Until expended, money on deposit in the 2018A Construction Account shall be invested pursuant to this Order. The net income, interest or gain received and collected from investments in the 2018A Construction Account may be used and applied by the Issuer for the purpose of paying for costs and expenses incurred in connection with the development, financing, or construction of the Venue Project as permitted by Chapter 334.

Upon final completion of the portion of the Venue Project for which the Bonds were issued (as determined by a Designated Financial Officer), and after payment of all amounts payable by the Issuer therefor, any funds remaining in the 2018A Construction Account shall be transferred to the Debt Service Account and any amounts required by Section 19.C to be transferred to the Debt Service Account shall be offset to the extent of funds transferred to such account from the 2018A Construction Account.

This account shall be maintained by the County at a Depository.

SECTION 20 *Redemption of Refunded Obligations.*

The Refunded Obligations referenced in the preamble hereof become subject to redemption prior to their stated maturity at the price of par and accrued interest to the date of redemption. The Issuer shall give written notice to the paying agent for the Refunded Obligations that the Refunded Obligations have been called for redemption, and the Court orders that such obligations are called for redemption on the redemption date set forth on Exhibit E attached hereto, and such order to redeem the Refunded Obligations on such date shall be irrevocable upon the delivery of the Bonds. A copy of the notice of redemption pertaining to the Refunded Obligations is attached to this Order as Exhibit D and is incorporated herein by reference for all purposes. The paying agent for the Refunded Obligations is authorized and instructed to provide notice of this redemption to the holders of the Refunded Obligations in the form and manner described in the order authorizing the issuance of the Refunded Obligations.

SECTION 21 *Proceeds of Sale – Contribution from Issuer.*

Proceeds from the sale of the Bonds shall be applied as follows:

A. The Issuer received a net reoffering premium from the sale of the Bonds of \$1,371,102.55, of which \$1,044,355.40 is attributable to the refunding portion of the Bonds (the *Refunding Premium*) and \$326,747.15 is attributable to the new money portion of the Bonds (the *New Money Premium*). The New Money Premium is hereby allocated by the Issuer in the following manner: (1) \$21,427.71 to pay the Purchasers' compensation, (2) 37,436.56 to pay certain costs of issuance, (3) \$76,816.99 to pay the bond insurance and surety bond premiums, and (4) \$191,065.89 shall be deposited into the 2018A Construction Account as described in paragraph B below. The Refunding Premium is hereby allocated by the Issuer in the following manner: (1) \$213,398.54 to pay the Purchasers' compensation, (2) \$175,638.44 to pay certain costs of issuance, (3) \$829.50 as the contingency amount, and (4) \$654,488.92 to pay the bond insurance and surety bond premiums.

B. The amount of \$3,921,065.89 (being principal of the Bonds in the amount of \$3,730,000.00 and a portion of the New Money Premium in the amount of \$191,065.89) derived from the sale of the Bonds shall be deposited into the 2018A Construction Account. Interest earned on the proceeds

of the Bonds pending completion of the projects financed with such proceeds shall be accounted for, maintained, deposited, and expended as permitted by the provisions of Chapter 1201, as amended, Texas Government Code, or as required by any other applicable law. Thereafter, such amounts shall be expended in accordance with Section 19.B.

C. The balance of the proceeds derived from the sale of the Bonds in the amount of \$31,636,675.00 shall be deposited with the paying agent for the Refunded Obligations for application and disbursement in accordance with the provisions of the notice of redemption described in Section 20 hereof. The proceeds of sale of the Bonds not so deposited with the Paying Agent/Registrar for the Refunded Obligations for the refunding of the Refunded Obligations shall be disbursed for payment of costs of issuance, transferred as discussed above, or deposited in the Debt Service Account or the Capital Improvement and Maintenance and Operations Account, all in accordance with written instructions of a Designated Financial Officer.

SECTION 22 *Deficiencies.*

If on any occasion there shall not be sufficient Pledged Revenues hereunder to make the transfers required (after taking into account other sources herein identified as required for any such purpose), then such deficiency shall be cured as soon as possible from the next available unallocated Pledged Revenues and such payments shall be in addition to the amounts required to be paid into these accounts during such month or months.

SECTION 23 *Payment of Bonds.*

The Designated Financial Officer or other authorized Issuer official shall cause to be transferred from funds on deposit in the Debt Service Account (upon deposit of funds as described in the Order including the transfer from the Debt Service Reserve Fund) (1) while any of the Bonds are Outstanding, to the Paying Agent/Registrar, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds as such installment accrues or matures, such transfer to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the Business Day next preceding the date a debt service payment is due on the Bonds, and (2) to the Persons entitled to receive such payments, all amounts due and owing from the Issuer under the Paying Agent/Registrar Agreement.

SECTION 24 *Investments.*

Funds held in any Fund or account created, established, or maintained pursuant to this Order may, at the option of the Issuer, be placed in time deposits, certificates of deposit, guaranteed investment contracts or similar contractual agreements, as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or any other law, and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, including investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, or Federal Housing Association; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund or account will be available at the proper time or times. Such investments (except State and Local Government Series

investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in any debt service account or debt service reserve account immediately shall be credited to, and any losses therefrom debited to, the applicable debt service fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds.

SECTION 25 *Additional Obligations.*

A. Except as otherwise provided in Section 27.C hereof, so long as the Bonds remain Outstanding, the County shall not issue Additional Combined Venue Tax Bonds.

B. At the County's option, obligations payable from and equally secured by a junior and inferior lien on and pledge of all or part of any County revenues theretofore pledged as security for the repayment of any Bonds, which includes Subordinate Lien Pledged Revenues, to remain Outstanding after the issuance of the contemplated junior lien obligations may be issued for any lawful purpose. Such junior lien obligations shall have the characteristics and be subject to the terms and conditions as determined by the County at the time of their issuance.

SECTION 31 *Insurance Agreement Approval; Provisions Relating to Bond Insurance.*

The following provision shall control notwithstanding anything to the contrary in this Order unless the Insurer has failed to pay a draw required to be paid by the terms of the Insurance Policy or the Surety Policy.

A. Insurance Agreement. The Insurance Agreement, dated as of June 19, 2018 (the *Insurance Agreement*) between the Issuer and the Insurer attached hereto as Exhibit F and incorporated herein by reference as part of this Order for all purposes, is hereby approved as to form and content, and such Insurance Agreement in substantially the form and substance attached hereto, together with such changes and revisions as may be necessary to accomplish its intended purposes, is hereby authorized to be executed by any Designated Financial Officer for and on behalf of the Issuer and as an act and deed of the Court; such Insurance Agreement as executed by said officials shall be deemed approved by the Court and constitute the Insurance Agreement herein approved.

A. Notices and Other Information.

- 1) Any notice that is required to be given to the Holders, the MSRB pursuant to the Rule or to the Paying Agent/Registrar pursuant to the financing documents of the Issuer to be delivered in connection with the issuance of the Bonds (the *Financing Documents*) shall also be provided to the Insurer simultaneously with the sending of such notices. In addition, all information furnished by the Issuer pursuant to Section 45 hereof shall also be provided to the Insurer, simultaneously with the furnishing of such information.
- 2) All demands, notices and other information required to be given to the Insurer under the Financing Documents shall be in writing and shall be mailed by registered or certified mail or personally delivered or telecopied to the recipient as follows:

Assured Guaranty Municipal Corp.
1633 Broadway Street
New York, New York 10019
Attention: Manager – Surveillance
(Re: Policy No. 218893-N)

Telecopy No.: (212) 339-3556
Confirmation: (212) 974-0100
Email:

(In each case in which notice or other communication refers to an event of default, then such demand, notice or other communication shall be marked to indicate “URGENT MATERIAL ENCLOSED”.)

- 3) The Insurer shall have the right to receive such additional information as it may reasonably request.
- 4) The Issuer will permit the Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Issuer and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.
- 5) The Issuer shall notify the Insurer of any failure of the Issuer to provide notices, certificates and other information under this Order.
- 6) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Order would adversely affect the security for the Bonds or the rights of the Holders, the Paying Agent/Registrar shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.
- 7) No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.
- 8) To the extent funds are drawn on the Coverage Stabilization Account as heretofore described in Section 19(F), amounts disbursed from the Collection Account shall be used to replenish such amounts drawn from the Coverage Stabilization Account prior to any transfer funds authorized by Sections 19(B)(3) and (4) hereof.
- 9) Unless the Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the 2018A Construction Account shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Bonds.
- 10) After payment of reasonable expenses of the Paying Agent/Registrar, the application of funds realized upon default shall be applied to the payment of expenses of the Issuer or rebate only after the payment of past due and current debt service on the Bonds and amounts required to restore the Debt Service Reserve Account to the Debt Service Reserve Requirements.
- 11) The Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy).

B. Defeasance. In the event that the principal and/or interest due on the Bonds shall be paid by the Insurer pursuant to the Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the registered owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered owners, including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Bonds.

In addition, and for so long as the Policy remains in effect, a defeasance of the Bonds pursuant to Section 18 shall not be effective until the Issuer has delivered to the Insurer, in connection with such defeasance, the following items:

- 1) A report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer (the *Accountant*) verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (*Verification*);
- 2) An escrow agreement (which shall be acceptable in form and substance to the Insurer);
- 3) An opinion of nationally recognized bond counsel to the effect that the Bonds are no longer Outstanding; and
- 4) A certificate of discharge of the Paying Agent with respect to the Bonds.

Each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Issuer, Paying Agent/Registrar and Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow. Bonds shall be deemed Outstanding under this Order unless and until they are in fact paid and retired or the above criteria are met.

C. Paying Agent/Registrar. Notwithstanding any other provision of any Financing Document, in determining whether the rights of Holders will be adversely affected by any action taken pursuant to the terms and provisions thereof, the Paying Agent/Registrar shall consider the effect on the Holders as if there were no Policy.

D. Amendments and Supplements. With respect to amendments or supplements to this Order which do not require the consent of the Holders, the Insurer must be given prior written notice of any such amendments or supplements. With respect to amendments or supplements to this Order which do require the consent of the Holders, the Insurer's prior written consent is also required. Copies of any amendments or supplements to this Order which are consented to by the Insurer shall be sent to S&P.

E. The Insurer as Third Party Beneficiary. The Insurer is explicitly recognized as being a third party beneficiary under this Order and may enforce any right, remedy or claim conferred, given or granted hereunder.

F. Control Rights. The Insurer shall be deemed to be the sole holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to this Order pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Paying Agent/Registrar. In furtherance thereof and as a term of the Order and each Bond, the Paying Agent/Registrar and each Holder appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation

of any proceeding by or against the Issuer under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an *Insolvency Proceeding*) direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a *Claim*), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Paying Agent and each Holder delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Paying Agent/Registrar and each Holder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Holders shall expressly include mandamus.

G. Consent Rights of the Insurer.

- 1) The rights granted to the Insurer under the Order or any other Financing Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Holders and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Holder or any other person is required in addition to the consent of the Insurer.
- 2) Other than the initial Surety Bond delivered by the Insurer entered into in connection with the issuance of the Bonds, the prior written consent of the Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Debt Service Reserve Account, if any. Notwithstanding anything to the contrary set forth in this Order, amounts on deposit in the Debt Service Reserve Account shall be applied solely to the payment of debt service due on the Bonds.
- 3) Any provision of this Order expressly recognizing or granting rights in or to the Insurer may not be amended in any manner that affects the rights of the Insurer hereunder without the prior written consent of the Insurer.
- 4) Wherever this Order requires the consent of Holders, the Insurer's consent shall be required in lieu of the consent of such Holders.
- 5) Any reorganization or liquidation plan with respect to the Issuer must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Holders who hold Bonds guaranteed by the Insurer, absent a default by the Insurer under the Policy.
- 6) No grace period for a covenant default shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Insurer. No grace period shall be permitted for payment defaults.

H. Reimbursement Obligations.

- 1) The Issuer shall pay or reimburse the Insurer, to the extent permitted by law and subject to annual appropriation, solely from Pledged Revenues any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the

administration, enforcement, defense or preservation of any rights or security in any Financing Document; (ii) the pursuit of any remedies under the Order or any other Financing Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Order or any other Financing Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Order or any other Financing Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of this Order or any other Financing Document.

- 2) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of this Order and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Issuer in accordance with this Order. This Order shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

I. Payment Procedure Under the Policy.

- 1) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date (*Payment Date*) there is not on deposit with the Paying Agent/Registrar, after making all transfers and deposits required under this Order, money sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Paying Agent/Registrar shall give notice to the Insurer and to its designated agent (if any) (the *Insurer's Fiscal Agent*) by telephone or email of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Paying Agent/Registrar shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.
- 2) The Paying Agent/Registrar shall designate any portion of payment of principal on Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Holder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Paying Agent's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Issuer on any Bond or the subrogation rights of the Insurer. The Paying Agent/Registrar shall provide the Insurer and any Fiscal Agent with a list of Holders of Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Policy, and shall make arrangements with the Insurer, the Fiscal Agent or another designee of the Insurer to (i) mail checks or drafts to the Holders of Bonds entitled to receive full or partial interest payments from the Insurer and (ii) pay principal upon Bonds surrendered to the Insurer, the Fiscal Agent or another designee of the Insurer

by the Holders of Bonds entitled to receive full or partial principal payments from the Insurer.

- 3) The Paying Agent/Registrar shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Paying Agent.
- 4) Upon payment of a claim under the Insurance Policy, the Paying Agent/Registrar shall establish a separate special purpose trust account for the benefit of Holders referred to herein as the "Policy Payments Account" and over which the Paying Agent shall have exclusive control and sole right of withdrawal. The Paying Agent/Registrar shall receive any amount paid under the Insurance Policy in trust on behalf of Holders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent/Registrar to Holders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary (and not in limit of the subrogation rights of the Insurer), the Issuer agrees to pay, from Pledged Revenues only, to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the *Insurer Advances*); and (ii) to the extent permitted by law and subject to annual appropriation interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the *Insurer Reimbursement Amounts*). *Late Payment Rate* means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates, calculated in accordance with the provisions of Chapter 1204, as amended, Texas Government Code. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Issuer hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Pledged Revenues and payable from such Pledged Revenues on a parity with debt service due on the Bonds.
- 5) Funds held in the Policy Payments Account shall not be invested by the Paying Agent/Registrar and may not be applied to satisfy any costs, expenses or liabilities of the Paying Agent/Registrar. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Insurer.
- 6) The Insurer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the Issuer to the Insurer under the Financing Documents shall survive discharge or termination of such Financing Documents.

- J.** Reporting Requirements. The Issuer will furnish, or cause to be furnished, to the Insurer:
- 1) annual audited financial statements within 210 days after the end of the Issuer's fiscal year (together with a certification of the Issuer that it is not aware of any default or Event of Default under the Order), and the Issuer's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Insurer shall reasonably request from time to time;
 - 2) notice of any draw upon the Debt Service Reserve Account within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Debt Service Reserve Requirements and (ii) withdrawals in connection with a refunding of Bonds;
 - 3) notice of any default known to the Paying Agent/Registrar or Issuer within five Business Days after knowledge thereof;
 - 4) prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;
 - 5) notice of the resignation or removal of the Paying Agent/Registrar and the appointment of, and acceptance of duties by, any successor thereto
 - 6) notice of the commencement of any proceeding by or against the Issuer commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (i.e. Insolvency Proceeding);
 - 7) notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;
 - 8) a full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and
 - 9) all reports, notices and correspondence to be delivered to Holders under the terms of the Financing Documents.

In addition, all information furnished by the Issuer pursuant to Section 45 hereof shall also be provided to the Insurer, simultaneously with the furnishing of such information.

APPENDIX B

**General Information Regarding McLennan County, Texas and
the City of Waco, Texas**

(this page intentionally left blank)

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

Location and Economy

McLennan County (the “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's 2010 census was 234,906, an increase of 10.0% over the 2000 census of 213,517.

The City of Waco (the “City”) is the county seat and center for manufacturing, tourism, conventions and agribusiness for central Texas. The City is located 90 miles south of the City of Dallas on Interstate Highway I-35. The City is the approximate geographic center of the Texas population, being within 200 miles of 70% of the Texas population. The central location makes the City a popular distribution center for trade goods. The City is the site of the majority of principal employers within the County and several institutions of higher learning. The City's 2010 census is 124,805, a 9.7% increase over the 2000 census of 113,726.

Map of Texas Counties showing location of McLennan County



Population Trends

| <u>Year</u> | <u>City of Waco</u> | <u>McLennan County</u> |
|------------------|---------------------|------------------------|
| Current Estimate | 135,557 | 251,259 |
| 2010 Census | 124,805 | 234,906 |
| 2000 Census | 113,726 | 213,517 |
| 1990 Census | 103,590 | 189,123 |
| 1980 Census | 101,261 | 170,755 |
| 1970 Census | 95,326 | 147,553 |

Sources: U.S. Census Bureau and the Issuer.

[Remainder of Page Intentionally Left Blank]

Leading Employers – McLennan County

| <u>Employer</u> | <u>Type of Business</u> | <u>Estimated Number of Employees 2017</u> |
|-----------------------------------------------|-------------------------|-------------------------------------------|
| Baylor University | Education | 2,901 |
| Waco Independent School District | Public Education | 2,471 |
| Providence Health Center | Healthcare | 2,401 |
| Baylor Scott & White Medical Center-Hillcrest | Healthcare | 1,725 |
| H.E. Butt Grocery Co. (all stores) | Retail | 1,600 |
| City of Waco | Local Government | 1,456 |
| L-3 Communications | Aerospace | 1,349 |
| Midway Independent School District | Public Education | 1,282 |
| Sanderson Farms Inc. | Manufacturing | 1,215 |
| Wal-Mart (all locations) | Retail | 1,026 |

Source: Issuer's 2017 Comprehensive Annual Financial Report - Statistical Section.

Labor Force Statistics

| | <u>McLennan County</u> | | <u>City of Waco</u> | | <u>Waco MSA</u> | |
|------------------------------|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>February 2018</u> | <u>February 2017</u> | <u>February 2018</u> | <u>February 2017</u> | <u>February 2018</u> | <u>February 2017</u> |
| Civilian Labor Force | 118,811 | 118,243 | 60,839 | 60,594 | 125,495 | 124,920 |
| Total Employed | 114,387 | 113,404 | 58,468 | 57,965 | 120,787 | 119,776 |
| Total Unemployed | 4,424 | 4,839 | 2,371 | 2,629 | 4,708 | 5,144 |
| % Unemployed | 3.7% | 4.1% | 3.9% | 4.3% | 3.8% | 4.1% |
| % Unemployed (Texas) | 4.1% | 4.8% | 4.1% | 4.8% | 4.1% | 4.8% |
| % Unemployed (United States) | 4.4% | 4.9% | 4.4% | 4.9% | 4.4% | 4.9% |

Source: Texas Workforce Commission, Labor Market Information Department.

* * * *

APPENDIX C

Excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from McLennan County, Audited Financial Statements for the fiscal year ended September 30, 2017, and is not intended to be a complete statement of the County's financial condition. Reference is made to the complete Annual Financial Report for further information.

(this page intentionally left blank)

McLENNAN COUNTY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

Prepared by:
STAN CHAMBERS, CPA
COUNTY AUDITOR

McLENNAN COUNTY, TEXAS
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2017

TABLE OF CONTENTS

| | Page |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| INTRODUCTORY SECTION: | |
| LETTER OF TRANSMITTAL | 1 |
| GFOA CERTIFICATE OF ACHIEVEMENT | 5 |
| ORGANIZATIONAL CHART | 7 |
| LIST OF ELECTED AND APPOINTED OFFICIALS | 8 |
| FINANCIAL SECTION: | |
| INDEPENDENT AUDITOR'S REPORT | 11 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 15 |
| BASIC FINANCIAL STATEMENTS: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 32 |
| Statement of Activities | 33 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 34 |
| Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position | 35 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds | 36 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 37 |
| Statement of Net Position – Proprietary Fund | 38 |
| Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund | 39 |
| Statement of Cash Flows – Proprietary Fund | 40 |
| Statement of Fiduciary Net Position – Fiduciary Funds | 41 |
| Statement of Changes in Fiduciary Net Position – Fiduciary Funds | 42 |
| Notes to the Basic Financial Statements | 43 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – General Fund | 78 |
| Schedule of Funding Progress for the Health Care Plan for the Employees of McLennan County | 79 |
| Schedule of Changes in Net Pension Liability and Related Ratios | 80 |
| Schedule of Employer Contributions | 81 |
| Notes to Schedule of Contributions | 82 |
| Notes to the Required Supplementary Information | 83 |
| SUPPLEMENTARY FINANCIAL INFORMATION: | |
| Combining and Individual Fund Statements and Schedules: | |
| Nonmajor Governmental Funds - Purpose of Funds and Fund Descriptions | 87 |
| Combining Balance Sheet – Nonmajor Governmental Funds | 92 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds | 98 |

McLENNAN COUNTY, TEXAS
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2017

TABLE OF CONTENTS

| | Page |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Schedule of Expenditures – Compared to Budget (GAAP Basis) – General Fund | 104 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Debt Service Fund | 135 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Permanent Improvement Fund | 136 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Alcohol and Drug Court Program Fund | 137 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Child Abuse Prevention Fund | 138 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – County and District Court Technology Fund | 139 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – County Clerk Records Management Fund | 140 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Courthouse Security Fund | 141 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Court-Initiated Guardianship Fund | 142 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Court Records Preservation Fund | 143 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Court Reporter Service Fund | 144 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Dispute Resolution Fund | 145 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – District Attorney Pretrial Intervention Fund | 146 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – District Clerk Errors and Omissions Fund | 147 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – District Clerk Records Management Fund | 148 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – District Court Records Technology Fund | 149 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Family Protection Fund | 150 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Farm-to-Market / Flood Control Fund | 151 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Justice Court Building Security Fund | 152 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Justice Technology Fund | 153 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Juvenile Delinquency Prevention Fund | 154 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Law Library Fund | 155 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Records Management Fund | 156 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Truancy Court Fund | 157 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Basis) and Actual – Venue Project Fund | 158 |
| Agency Funds: | |
| Agency Funds – Purpose of Funds | 159 |
| Combining Statement of Changes in Assets and Liabilities – All Agency Funds | 161 |

McLENNAN COUNTY, TEXAS
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2017

TABLE OF CONTENTS

Page

STATISTICAL SECTION:

FINANCIAL TRENDS

| | |
|------------------------------------------------|-----|
| Net Position by Component | 166 |
| Changes in Net Position | 168 |
| Governmental Activities Tax Revenues by Source | 171 |
| Governmental Fund Balances | 172 |
| Changes in Fund Balances, Governmental Funds | 174 |

REVENUE CAPACITY

| | |
|-----------------------------------------------------------------------|-----|
| Taxable Assessed Value and Actual Value of Property | 177 |
| Property Tax Rates – Direct and Overlapping Governments | 178 |
| Components of Property Tax Rates – Direct and Overlapping Governments | 180 |
| Principal Taxpayers | 190 |
| Property Tax Levies and Collections | 191 |

DEBT CAPACITY

| | |
|-----------------------------------------------|-----|
| Ratio of Outstanding Debt by Type | 192 |
| Ratios of Net General Bonded Debt Outstanding | 193 |
| Computation of Direct and Overlapping Debt | 194 |
| Legal Debt Margin | 196 |

DEMOGRAPHIC AND ECONOMIC INFORMATION

| | |
|-------------------------------------|-----|
| Demographic and Economic Statistics | 198 |
| Principal Employers | 199 |

OPERATING INFORMATION

| | |
|--------------------------------------|-----|
| County Employees by Function | 201 |
| Operating Indicators by Function | 202 |
| Capital Asset Statistics by Function | 204 |

INTRODUCTORY SECTION

**Stan Chambers, CPA
County Auditor**



214 N. Fourth Street, Suite 100
Waco, Texas
Voice (254) 757-5156
Fax (254) 757-5157
Stan.chambers@co.Mclennan.tx.us

March 29, 2018

Honorable District Judges
Honorable County Judge
Honorable County Commissioners

The Comprehensive Annual Financial Report of McLennan County, Texas, for the fiscal year ended September 30, 2017, is submitted herewith in accordance with Chapter 114.025 of the Local Government Code. The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and audited in accordance with auditing standards generally accepted in the United States of America by a firm of certified public accountants.

This report consists of management's representations concerning the finances of McLennan County, Texas. Management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, McLennan County management has established a comprehensive internal control framework designed both to protect governmental assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). McLennan County's comprehensive framework, because the cost of internal controls should not outweigh their benefits, has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

McLennan County's financial statements have been audited by Pattillo, Brown and Hill LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended September 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial presentation. The independent auditors concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion on McLennan County's financial statements for the fiscal year ended September 30, 2017 that they are fairly presented in conformity with generally accepted accounting principles. The independent auditors' report is presented as the first component of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. McLennan County's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Located in Central Texas, McLennan County was incorporated in 1850 and both the County and the County Seat were named after the pioneer, Neil McLennan. The County's population continues to grow and is now 234,906 according to the 2010 census. This is up 10% over the 2000 census of 213,517 and 24.2% over the 1990 census of 189,123. The County has a land area of 1,042 square miles. The decennial census levels in Texas determine which of the various State statutes apply to each particular Texas County.

The County operates as specified under the Constitution and Statutes of the State of Texas, which provide for a Commissioners Court consisting of the County Judge and four Commissioners, one from each of four geographical precincts. The County Judge is elected for a term of four years and the Commissioners for four-year staggered terms.

The County provides the full range of county services contemplated by the Constitution and Statutes of the State of Texas. The primary functions include general government, judiciary, public safety, county roads, environmental protection, health, welfare, culture and recreation, conservation, and infrastructure.

The annual budget serves as the foundation for McLennan County's financial planning and control. All departments of the County are required to submit requests for appropriation to the County Auditor's Office. The County Auditor, who serves as the Budget Officer, presents these requests to Commissioners Court. The County Auditor is also responsible for estimating the revenues for the budget. Through budget workshops the Commissioners Court creates a budget which is voted on and becomes the proposed budget. The proposed budget must be filed with the County Clerk. The Court is required to publish specific information, notices, and hold public hearings as defined by State Statute. After all these requirements are met, the Court may adopt the budget and the tax rate by September 1 or as soon thereafter as is practical. The appropriated budget is adopted by fund, then by department, then by individual line item. Budget-to-actual comparisons are provided in this report for all of the funds for which a budget is adopted by the Commissioners Court.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which McLennan County operates.

Local economy. McLennan County experiences the same economic concerns being felt across Texas and the Nation. However, the tough economy is mitigated to a great degree in McLennan County by its diversified and stable economic base, including manufacturing, high technology companies, retail, higher education institutions, service industries, aviation industry and others. McLennan County provides a high quality labor force, attractive real estate opportunities, favorable tax treatment and abundant natural resources.

McLennan County is strategically located at the approximate geographic center of Texas, often referred to as the "Heart of Texas," and is within 200 miles of 70 percent of the Texas population. Major cities such as Austin, Dallas, Fort Worth, Houston, and San Antonio are within minimal driving distances. The NAFTA (North American Free Trade Agreement) continues to have a strong impact on the County. Interstate Highway 35, considered a main gateway to Mexico, passes through the middle of the County.

Long-term financial planning. The Commissioners Court continues to be very active in economic development to insure and promote continued growth. Vigorous efforts by the McLennan County Commissioners Court and the Greater Waco Chamber of Commerce to attract new industry to the area are continuing, and the prospect of continued growth in the local economy is very encouraging at this time. The establishment of the Waco/McLennan County Economic Development Corporation, a joint venture with the Greater Waco Chamber of Commerce, the Waco Industrial Foundation, the City of Waco and McLennan County, has been a significant instrument in promoting economic development in our area. Both McLennan County and the City of Waco provide the funding for the Corporation, which provides economic incentives to companies meeting certain social and economic performance standards.

Changes to Other Post Employment Benefits. The County has made the decision to change its Other Post Employment Benefits to mitigate the Unfunded Actuarial Accrued Liability (UAAL). The year ended September 30, 2009 was the implementation year for GASB 45 and the UAAL is significant. The Commissioners Court passed an order in late December 2008 that any employees coming to work for the County after January 1, 2009 would not be eligible for the county-paid lifetime health insurance premiums (the terms of this benefit are fully explained in the notes to the financial statements).

Awards and Acknowledgements

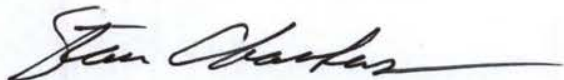
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to McLennan County, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2016. This was the thirty-second consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the County Auditor's Office. I would like to express my appreciation to everyone who assisted and contributed in the preparation of this report. Credit also must be given to the Board of District Judges for their support in maintaining the highest standard of

professionalism, and to the McLennan County Commissioners Court for its management of McLennan County's finances and for their work in helping develop information related to reporting infrastructure and for providing the necessary related software tools.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stan Chambers", with a long horizontal flourish extending to the right.

Stan Chambers, CPA
McLennan County Auditor



FINANCIAL SECTION



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

INDEPENDENT AUDITOR'S REPORT

To the Honorable County Judge and
Commissioners' Court
McLennan County, Texas

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McLennan County, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprises McLennan County'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.

WACO, TX
401 West Highway 6
Waco, Texas 76710
254.772.4901
www.pbhpa.com

HOUSTON, TX
281.671.6259
RIO GRANDE VALLEY, TX
956.544.7778

TEMPLE, TX
254.791.3460
ALBUQUERQUE, NM
505.266.5904


Governmental Audit
Quality Center

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, each major fund, and the aggregate remaining fund information of McLennan County, Texas, as of September 30, 2017, and the respective changes in financial position and cash flows, where applicable, 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, budgetary comparison and pension information, and other post-employment benefit plans on pages 15-30 and 78-83 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 McLennan County, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2018, on our consideration of the McLennan County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McLennan County, Texas' internal control over financial reporting and compliance.

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

Waco, Texas
March 29, 2018



BASIC FINANCIAL STATEMENTS

(this page intentionally left blank)

MCLENNAN COUNTY, TEXAS

Statement of Net Position

September 30, 2017

| | |
|---------------------------------------------------------------|-----------------------|
| ASSETS | |
| Cash and Investments | \$ 101,537,705 |
| Receivables (net of allowances for estimated uncollectibles): | |
| Taxes | 2,635,120 |
| Accounts | 6,343,865 |
| Due from Other Governments | 4,934,263 |
| Prepaid Assets | 963,928 |
| Capital Assets (net of accumulated depreciation) | |
| Land | 3,912,018 |
| Buildings and system | 64,807,441 |
| Improvements other than buildings | 662,991 |
| Machinery and equipment | 9,211,935 |
| Infrastructure | 8,871,805 |
| Construction in progress | 1,628,993 |
| Total Assets | <u>\$ 205,510,064</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Outflow Related to Pensions | \$ 20,275,072 |
| Deferred Losses on Refundings of Debt | 2,700,904 |
| Total Deferred Outflows of Resources | <u>\$ 22,975,976</u> |
| LIABILITIES | |
| Accounts Payable | \$ 10,046,805 |
| Accrued Interest Payable | 738,406 |
| Due to Other Governments | 242,420 |
| Estimated Claims Incurred but Not Reported | 415,234 |
| Unearned Revenue | 420,578 |
| Noncurrent liabilities: | |
| Due within one year | 7,003,027 |
| Due in more than one year | 126,368,284 |
| Total Liabilities | <u>\$ 145,234,754</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Inflow Related to Pensions | \$ 1,160,581 |
| Total Deferred Outflows of Resources | <u>\$ 1,160,581</u> |
| NET POSITION | |
| Net Investment in Capital Assets | \$ 40,291,647 |
| Restricted Net Position | |
| Restricted for General Government | 2,235,820 |
| Restricted for Judicial Functions | 1,236,622 |
| Restricted for Public Safety Functions | 3,725,343 |
| Restricted for Transportation Functions | 36,863 |
| Restricted for Health Functions | 10,549,932 |
| Restricted for Welfare Functions | 10,804 |
| Restricted for Capital Projects | 1,364,936 |
| Restricted for Debt Service | 7,083,326 |
| Unrestricted | 15,555,412 |
| Total Net Position | <u>\$ 82,090,705</u> |

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

MCLENNAN COUNTY, TEXAS

Statement of Activities

For the Year Ended September 30, 2017

| Functions/Programs: | Expenses | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|-------------------------------------|----------------|---------------|----------------------|------------------------------------|---------------------------------------------------|
| | | | Charges for Services | Operating Grants and Contributions | |
| General Administration | \$ 29,388,827 | \$ 8,606,316 | \$ 76,332 | \$ (20,706,179) | |
| Judicial | 7,362,291 | 3,498,658 | - | (3,863,633) | |
| Public Safety | 59,611,564 | 18,941,938 | 3,927,664 | (36,741,962) | |
| Public Transportation | 10,897,852 | 238,234 | 45,109 | (10,614,509) | |
| Health | 27,757,197 | 95,253 | 29,461,178 | 1,799,234 | |
| Welfare | 7,118,323 | - | 206,230 | (6,912,093) | |
| Culture-Recreation | 864,788 | 126 | - | (864,662) | |
| Conservation | 309,220 | - | - | (309,220) | |
| Economic Development and Assistance | 1,826,232 | - | - | (1,826,232) | |
| Interest and Fiscal Charges | 2,347,503 | - | - | (2,347,503) | |
| Total Governmental Activities | \$ 147,483,797 | \$ 31,380,525 | \$ 33,716,513 | \$ (82,386,759) | |
| General Revenues: | | | | | |
| Property Taxes | | | | 72,989,151 | |
| Sales Tax | | | | 17,247,080 | |
| Other Taxes | | | | 882,566 | |
| Unrestricted Investment Earnings | | | | 862,254 | |
| Miscellaneous | | | | 2,385,824 | |
| Total General Revenues | | | | 94,366,875 | |
| Change in Net Position | | | | 11,980,116 | |
| Net Position - Beginning | | | | 70,110,589 | |
| Net Position - Ending | | | | \$ 82,090,705 | |

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

MCLENNAN COUNTY, TEXAS

Balance Sheet

Governmental Funds

September 30, 2017

| | General Fund | Debt Service Fund | Permanent Improvement Fund | Local Provider Participation Fund | PFC Jail Operating Fund | PFC Debt Service Fund | Other Governmental Funds | Total |
|---------------------------------------------------------------------|---------------------|---------------------|----------------------------|-----------------------------------|-------------------------|-----------------------|--------------------------|----------------------|
| ASSETS | | | | | | | | |
| Assets: | | | | | | | | |
| Cash and Investments | \$54,702,064 | \$ 1,867,948 | \$19,606,405 | \$10,549,932 | \$ 1,366,842 | \$ 4,592,887 | \$ 8,555,113 | \$101,241,191 |
| Receivables (net of allowances for estimated uncollectibles): | | | | | | | | |
| Taxes | 2,370,365 | 185,286 | 37,454 | - | - | - | 42,015 | 2,635,120 |
| Accounts | 192,308 | - | - | - | - | - | 14,478 | 206,786 |
| Due from Other Funds | 460,204 | - | - | - | 2,223,430 | 453,713 | - | 3,137,347 |
| Due from Other Governments | 4,551,462 | - | - | - | - | - | 382,801 | 4,934,263 |
| Prepaid Assets | 963,555 | - | - | - | - | - | 373 | 963,928 |
| Total Assets | <u>\$63,239,958</u> | <u>\$ 2,053,234</u> | <u>\$19,643,859</u> | <u>\$10,549,932</u> | <u>\$ 3,590,272</u> | <u>\$ 5,046,600</u> | <u>\$ 8,994,780</u> | <u>\$113,118,635</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts Payable | \$ 5,513,541 | \$ - | \$ 382,103 | \$ - | \$ 3,136,559 | \$ - | \$ 1,014,602 | \$ 10,046,805 |
| Interest Payable | - | 24,440 | - | - | - | - | - | 24,440 |
| Due to Other Funds | 2,855,884 | - | - | - | 453,713 | - | 253,967 | 3,563,564 |
| Due to Other Governments | 242,419 | - | - | - | - | - | - | 242,419 |
| Unearned Revenue | - | - | - | - | - | - | 442,640 | 442,640 |
| Total Liabilities | <u>8,611,844</u> | <u>24,440</u> | <u>382,103</u> | <u>-</u> | <u>3,590,272</u> | <u>-</u> | <u>1,711,209</u> | <u>14,319,868</u> |
| Deferred Inflows of Resources: | | | | | | | | |
| Unavailable Revenue | | | | | | | | |
| Property Taxes | 2,208,727 | 177,354 | 36,260 | - | - | - | 41,819 | 2,464,160 |
| Other | - | - | - | - | - | - | 67,500 | 67,500 |
| Total Deferred Inflows of Resource | <u>2,208,727</u> | <u>177,354</u> | <u>36,260</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>109,319</u> | <u>2,531,660</u> |
| Fund Balances: | | | | | | | | |
| Nonspendable | 963,555 | - | - | - | - | - | 373 | 963,928 |
| Restricted for: | | | | | | | | |
| General Government | - | - | - | - | - | - | 2,235,820 | 2,235,820 |
| Judicial | - | - | - | - | - | - | 1,236,622 | 1,236,622 |
| Public Safety | 920 | - | - | - | - | - | 3,724,423 | 3,725,343 |
| Public Transportation | - | - | - | - | - | - | 36,863 | 36,863 |
| Health | - | - | - | 10,549,932 | - | - | - | 10,549,932 |
| Welfare | - | - | - | - | - | - | 7,651 | 7,651 |
| Debt Service | - | 1,851,440 | - | - | - | 5,046,600 | - | 6,898,040 |
| Committed for: | | | | | | | | |
| Welfare | 3,153 | - | - | - | - | - | - | 3,153 |
| Capital Projects | - | - | 19,225,496 | - | - | - | - | 19,225,496 |
| Economic Development | 9,968,375 | - | - | - | - | - | - | 9,968,375 |
| Unassigned | 41,483,384 | - | - | - | - | - | (67,500) | 41,415,884 |
| Total Fund Balance | <u>52,419,387</u> | <u>1,851,440</u> | <u>19,225,496</u> | <u>10,549,932</u> | <u>-</u> | <u>5,046,600</u> | <u>7,174,252</u> | <u>96,267,107</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | <u>\$63,239,958</u> | <u>\$ 2,053,234</u> | <u>\$19,643,859</u> | <u>\$10,549,932</u> | <u>\$ 3,590,272</u> | <u>\$ 5,046,600</u> | <u>\$ 8,994,780</u> | <u>\$113,118,635</u> |

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

MCLENNAN COUNTY, TEXAS

Reconciliation of the Balance Sheet of the
Governmental Funds to the Statement of Net Position

September 30, 2017

| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----|---------------|
| Total fund balances - governmental funds | | \$ | 96,267,107 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These capital assets (net of accumulated depreciation) consist of:</p> | | | |
| Land | | \$ | 3,912,018 |
| Buildings | | | 64,807,441 |
| Improvements other than buildings | | | 662,991 |
| Machinery and equipment | | | 9,211,935 |
| Infrastructure | | | 8,871,805 |
| Construction in progress | | | 1,628,993 |
| Total capital assets | | | 89,095,183 |
| <p>Some fines and fees earned in the current fiscal year, which are not available to provide for current financial resources, are not recorded in the governmental funds.</p> | | | |
| | | | 6,049,343 |
| <p>Some property taxes earned in the current fiscal year, which are not available to provide for current financial resources, are deferred in the governmental funds.</p> | | | |
| | | | 2,635,120 |
| <p>An Internal Service Fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the Internal Service Fund are not included in the governmental funds but are included in the Statement of Net Position.</p> | | | |
| | | | 313,835 |
| <p>Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. Those liabilities consist of:</p> | | | |
| Interest Payable | | | (713,967) |
| General Obligation Bonds | | | (3,035,000) |
| Revenue Bonds | | | (1,650,000) |
| Compensated Absences | | | (2,318,027) |
| Total Current Liabilities | | | (7,716,994) |
| General Obligation Bonds | | | (23,250,000) |
| Revenue Bonds | | | (41,430,000) |
| Unamortized Deferred Amount on Refunding | | | (17,591) |
| Unamortized Deferred Original Issue Premium | | | (952,107) |
| Unamortized Deferred Original Issue Discount | | | 3,670,602 |
| Net Pension Liability | | | (34,730,469) |
| Deferred Resources Related to Pensions | | | 19,114,491 |
| Other Post Employment Benefits | | | (26,378,308) |
| Compensated Absences | | | (579,507) |
| Total Non-current Liabilities | | | (104,552,889) |
| Net Position | | \$ | 82,090,705 |

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

MCLENNAN COUNTY, TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2017

| | General Fund | Debt Service Fund | Permanent Improvement Fund | Local Provider Participation Fund | PFC Jail Operating Fund | PFC Debt Service Fund | Other Governmental Funds | Total |
|---------------------------------------------------------|----------------------|---------------------|----------------------------|-----------------------------------|-------------------------|-----------------------|--------------------------|----------------------|
| Revenues: | | | | | | | | |
| Taxes | \$ 86,371,382 | \$ 3,390,536 | \$ 510,464 | \$ - | \$ - | \$ - | \$ 130,957 | \$ 90,403,339 |
| Licenses and Permits | 4,000 | - | - | - | - | - | - | 4,000 |
| Intergovernmental | 1,825,159 | - | - | - | - | - | 3,993,905 | 5,819,064 |
| Charges for Services | 10,921,943 | - | - | - | 13,419,519 | - | 4,123,431 | 28,464,893 |
| Fines and Forfeits | 638,445 | - | - | - | - | - | 147,864 | 786,309 |
| Contributions and Donations | - | - | - | 29,461,178 | - | - | - | 29,461,178 |
| Investment Earnings | 685,613 | 27,821 | 108,945 | - | 5,510 | 24,602 | 82,525 | 935,016 |
| Miscellaneous | 1,730,183 | - | 299,952 | - | - | 47 | 20,422 | 2,050,604 |
| Total Revenues | 102,176,725 | 3,418,357 | 919,361 | 29,461,178 | 13,425,029 | 24,649 | 8,499,104 | 157,924,403 |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| General Government | 26,152,878 | - | - | - | - | - | 1,433,610 | 27,586,488 |
| Judicial | 6,291,730 | - | - | - | - | - | 256,231 | 6,547,961 |
| Public Safety | 31,484,531 | - | - | - | 9,924,022 | - | 12,620,115 | 54,028,668 |
| Public Transportation | 10,786,788 | - | - | - | - | - | 10,716 | 10,797,504 |
| Health | 7,545,019 | - | - | 20,150,521 | - | - | - | 27,695,540 |
| Welfare | 6,857,556 | - | - | - | - | - | 213,593 | 7,071,149 |
| Culture-Recreation | 38,551 | - | - | - | - | - | - | 38,551 |
| Conservation | 233,047 | - | - | - | - | - | 42,750 | 275,797 |
| Economic Development and Assistance | 1,826,232 | - | - | - | - | - | - | 1,826,232 |
| Debt Service: | | | | | | | | |
| Principal | 24,670 | 3,030,000 | - | - | - | 1,630,000 | - | 4,684,670 |
| Interest and Fiscal Charges | 414 | 414,806 | - | - | - | 1,725,420 | - | 2,140,640 |
| Bond Issue Costs | - | - | 180,390 | - | - | - | - | 180,390 |
| Capital Projects | - | - | 2,552,080 | - | - | - | - | 2,552,080 |
| Total Expenditures | 91,241,416 | 3,444,806 | 2,732,470 | 20,150,521 | 9,924,022 | 3,355,420 | 14,577,015 | 145,425,670 |
| Excess (Deficiency) of Revenue over Expenditures | 10,935,309 | (26,449) | (1,813,109) | 9,310,657 | 3,501,007 | (3,330,771) | (6,077,911) | 12,498,733 |
| Other Financing Sources (Uses): | | | | | | | | |
| Transfers In | 1,500 | - | - | - | - | 3,501,007 | 5,845,464 | 9,347,971 |
| Transfers Out | (5,845,464) | - | - | - | (3,501,007) | - | (1,500) | (9,347,971) |
| Issuance of General Obligation Bonds | - | - | 9,415,000 | - | - | - | - | 9,415,000 |
| Premium on Issuance of Bonds | - | - | 570,330 | - | - | - | - | 570,330 |
| Sale of Capital Assets | 278,933 | - | - | - | - | - | - | 278,933 |
| Total Other Financing Sources (Uses) | (5,565,031) | - | 9,985,330 | - | (3,501,007) | 3,501,007 | 5,843,964 | 10,264,263 |
| Net Change in Fund Balance | 5,370,278 | (26,449) | 8,172,221 | 9,310,657 | - | 170,236 | (233,947) | 22,762,996 |
| Fund Balance at Beginning of Year | 47,049,109 | 1,877,889 | 11,053,275 | 1,239,275 | - | 4,876,364 | 7,408,199 | 73,504,111 |
| Fund Balance at End of Year | \$ 52,419,387 | \$ 1,851,440 | \$ 19,225,496 | \$ 10,549,932 | \$ - | \$ 5,046,600 | \$ 7,174,252 | \$ 96,267,107 |

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

MCLENNAN COUNTY, TEXAS

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of the Governmental Funds to the
Statement of Activities

For the Year Ended September 30, 2017

Net change in fund balances - governmental funds \$ 22,762,996

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

An Internal Service Fund is used by management to charge the costs of health insurance to individual funds. The net activities of the Internal Service Fund are included in the governmental activities in the statement of activities. (571,225)

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated lives as depreciation expense. In the current period, these amounts are:

| | | |
|----------------------------------------------------|--------------------|-----------|
| Capital outlay | \$ 6,132,672 | |
| Depreciation expense | <u>(6,821,230)</u> | |
| Excess of depreciation expense over capital outlay | | (688,558) |

Governmental funds report the full amount of proceeds from capital asset sales. However, in the statement of activities, only the gains or losses associated with those sales are reported. In the current period these amounts are:

| | | |
|------------------------------------|----------------|----------|
| Sales of capital assets | \$ (278,933) | |
| Net gain on sale of capital assets | <u>217,571</u> | |
| | | (61,362) |

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 937,336

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period these changes are:

| | | |
|---------------------------|----------------|---------|
| Property taxes receivable | \$ (43,288) | |
| Fines and fees receivable | <u>427,846</u> | |
| Total receivables | | 384,558 |

The liabilities for compensated absences are accrued at the government-wide level but not at the fund level. This is the current year change in those liabilities, reported as expense in the statement of activities. (671,786)

The OPEB obligation per GASB 45 are accrued at the government-wide level but not at the fund level. This is the current year change in those liabilities, reported as expense in the statement of activities. (3,047,445)

Accrued interest reported as expense in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (40,460)

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. (1,556,876)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current period these differences are:

| | | |
|-------------------------------------------|------------------|--------------------|
| Issuance of debt | (9,415,000) | |
| Amortization of deferred refunding amount | (166,402) | |
| Premium on Issuance of Bonds | (570,330) | |
| Debt repayment | <u>4,684,670</u> | |
| Total long-term debt | | <u>(5,467,062)</u> |

Change in net position of governmental activities \$ 11,980,116

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

MCLENNAN COUNTY, TEXAS

Statement of Net Position

Proprietary Fund

September 30, 2017

Governmental
Activities
Internal Service Fund

ASSETS:

Current Assets:

| | | |
|----------------------|----|------------------|
| Cash and Investments | \$ | 296,514 |
| Accounts Receivable | | 87,736 |
| Due from Other Funds | | 632,454 |
| Total Assets | | <u>1,016,704</u> |

LIABILITIES:

Current Liabilities:

| | | |
|--------------------------------------------|--|----------------|
| Estimated Claims Incurred But Not Reported | | 415,234 |
| Due to Other Funds | | 206,237 |
| Total Liabilities | | <u>621,471</u> |

DEFERRED INFLOWS OF RESOURCES:

| | | |
|-------------------------------------|--|---------------|
| Unavailable Revenue | | <u>81,398</u> |
| Total Deferred Inflows of Resources | | <u>81,398</u> |

NET POSITION - Unrestricted

\$ 313,835

The accompanying notes are an integral part of these financial statements.

MCLENNAN COUNTY, TEXAS

Statement of Revenues, Expenses
and Changes in Net Position

Proprietary Fund

For the Year Ended September 30, 2017

| | <u>Governmental Activities Internal Service Fund</u> |
|------------------------------------------|--------------------------------------------------------------|
| OPERATING REVENUES | |
| Charges for Services | \$ 7,704,307 |
| Insurance Recovery | 336,389 |
| Misc Recovery | 12,698 |
| Total operating revenues | <u>8,053,394</u> |
| OPERATING EXPENSES | |
| Insurance Claims | 7,474,668 |
| Co Insurance Premiums | 674,304 |
| Administrative Costs | 475,692 |
| Total operating expenses | <u>8,624,664</u> |
| OPERATING INCOME/(LOSS) | <u>(571,270)</u> |
| NON-OPERATING REVENUES (EXPENSES) | |
| Investments Earnings | 45 |
| Total non-operating revenues (expenses) | <u>45</u> |
| CHANGE IN NET POSITION | (571,225) |
| NET POSITION, BEGINNING | 885,060 |
| NET POSITION, ENDING | <u>\$ 313,835</u> |

The accompanying notes are an integral part of these financial statements.

MCLENNAN COUNTY, TEXAS

Statement of Cash Flows

Proprietary Fund

For the Year Ended September 30, 2017

| | Governmental Activities <u>Internal Service Fund</u> |
|------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | |
| Cash received from insurance claims recovery | \$ 336,389 |
| Cash received from customers | 8,016,922 |
| Cash paid to suppliers for goods and services | <u>(9,382,811)</u> |
| Net cash used by operating activities | <u>(1,029,500)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES | |
| Interest on investments | <u>45</u> |
| Net cash provided by investing activities | <u>45</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (1,029,455) |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>1,325,969</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u><u>\$ 296,514</u></u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | |
| Operating Income/(Loss) | \$ (571,270) |
| Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Change in assets and liabilities: | |
| Decrease (increase) in assets: | |
| Accounts receivable | (6,338) |
| Due from other funds | 318,953 |
| (Decrease) increase in liabilities: | |
| Due to other funds | (891,873) |
| Claims payable | <u>121,028</u> |
| Net cash used by operations | <u><u>\$ (1,029,500)</u></u> |

The accompanying notes are an integral part of these financial statements.

MCLENNAN COUNTY, TEXAS

Statement of Fiduciary Net Position

Fiduciary Funds

September 30, 2017

| | Private Purpose Trust Funds | Agency Funds |
|-------------------------------------|--------------------------------------------|-------------------------|
| Assets: | | |
| Cash and Investments | \$ 68,727 | \$ 16,445,359 |
| Total Assets | <u>\$ 68,727</u> | <u>\$ 16,445,359</u> |
| Liabilities: | | |
| Due to Other Governments | \$ - | \$ 1,061,741 |
| Due to Others | - | 15,383,618 |
| Total Liabilities | <u>\$ -</u> | <u>\$ 16,445,359</u> |
| Net Position: | | |
| Held in Trust for Pool Participants | \$ 68,727 | \$ - |
| Total Net Position | <u>\$ 68,727</u> | <u>\$ -</u> |

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

MCLENNAN COUNTY, TEXAS

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year Ended September 30, 2017

| | <u>Private Purpose Trust Funds</u> |
|---------------------------------|--------------------------------------------|
| Additions: | |
| Investment Earnings: | |
| Interest | \$ 704 |
| Total Investment Earnings | <u>704</u> |
| Total Additions | <u>704</u> |
| Deductions: | - |
| Total Deductions | <u>-</u> |
| Change in Net Position | 704 |
| Net Position, Beginning of Year | <u>68,023</u> |
| Net Position, End of Year | <u>\$ 68,727</u> |

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

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of McLennan County, Texas (the County) reflected in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standards*. This financial report has been prepared in accordance with GASB Statement No. 34 (Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments) issued in June 1999. The most significant accounting and reporting policies of the County are described in the following notes to the financial statements.

(a) Reporting Entity

1. Primary Government

McLennan County (the County) is a public corporation and political subdivision of the State of Texas. The Commissioners Court, comprised of the County Judge and four Commissioners, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: justice administration (courts, juries, constables, district attorney, clerks, investigators, sheriff, jail), tax collection, road and bridge maintenance, public health, agricultural extension services, fairgrounds venue, juvenile services, assistance to indigents and area economic development.

2. Blended Component Units

The accompanying basic financial statements present the government as defined according to criteria in GASB Statement No. 14, *The Financial Reporting Entity* and in GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14*. Blended component units, while legally separate entities, are, in substance, part of the government's operations.

The McLennan County Community Supervision and Corrections Department (also referred to as the Adult Probation Department and CSCD) is a blended component unit of McLennan County and is governed by the McLennan County Board of District Judges, who appoints the Director of the CSCD. The McLennan County Commissioners Court is required by statute to provide facilities, utilities and equipment for the operation of this department. In addition, the County provides administrative functions including accounting, risk management, payroll preparation and purchasing. The McLennan County CSCD is responsible for the management and monitoring of adult residents of McLennan County who are on criminal probation. Funding for salaries of CSCD personnel and many operating expenses is from various State grants.

The McLennan County Juvenile Probation/Detention Department is also a blended component unit of McLennan County and is governed by the McLennan County Juvenile Board, an entity defined by the Texas Legislature. The Juvenile Board appoints the Director of the department. The County holds and accounts for the funds of the department. Commissioners Court does have some level of legal authority in the budget process by approving the amount of the transfer from the "General Fund" to the "Juvenile Probation Local Fund." The Juvenile Board is responsible for approving the budget details that relate to this fund.

On September 2, 2008, the Commissioners Court of McLennan County issued a certificate for order that created a nonprofit public facilities corporation under Chapter 303 of the Texas Local Government Code. The McLennan County Public Facility Corporation (the "Corporation") was organized for the purpose of financing, on behalf of the County, an eligible criminal detention and correctional facility and to be responsible for the operations of such facility. The operations of the facility will be financed on an ongoing basis by the rental of jail space to third party entities, such as Federal agencies and other local governments. All of the members of

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

the Board of Directors of the Corporation are appointed by the Commissioners Court of the County and at September 30, 2017 consisted of the individuals that comprise the Commissioners Court with the exception of County Commissioner Precinct 2. The Corporation is included in the Comprehensive Annual Financial Report as a blended component unit. The Corporation's funds consist of an Operating Fund, a Capital Projects Fund, and a Debt Service Fund.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report on all the non-fiduciary activities of the County and its blended component units. The effect of inter-fund transfers has been removed from these statements but continues to be reflected on the fund statements. Primary support of governmental activities is derived from taxes, intergovernmental revenues and charges for services.

The statement of activities exhibits the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, 2) fines and fees assessed offenders by the judicial system, and 3) 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 in program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund, Debt Service Fund, Permanent Improvement Fund, Local Provider Participation Fund, PFC Jail Operating Fund, and the PFC Debt Service Fund meet the criteria or have been selected by management as *major governmental funds*. Each major fund is reported in separate columns in the fund financial statements. Nonmajor funds include other Special Revenue Funds and a Capital Projects Fund. The combined amounts for these funds are reflected in a single column in the fund financial statements. Detailed statements for nonmajor funds are presented within Combining and Individual Fund Statements and Schedules.

(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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types, which have been accrued, are district clerk and county clerk fines and fees, justice of the peace fines and fees, revenue from investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements are met.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as unavailable revenue. Property taxes, sales and other taxes, state and federal grants, federal prisoner reimbursements and detention center revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes levied prior to September 30, 2016 that were due October 1, 2016, have been assessed to finance the budget of the fiscal year ending September 30, 2017. In accordance with the modified accrual basis of accounting, the balances outstanding at September 30, 2017, and beyond the 60 days after year-end have been reflected as unavailable revenue and taxes receivable in the fund financial statements. Property taxes and interest earned as of September 30 and received within 60 days of year-end are accrued as income in the current period. Expenditures generally are recorded when a liability is incurred; however, debt service expenditures, claims and judgments, and compensated absences are recorded only when payment is made.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

1. The government reports the following major governmental funds:

The General Fund is the general operating fund of the County and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment interest income. Primary expenditures are for general administration, judicial, public safety, health services, welfare services, capital acquisition, and debt service.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Debt Service Funds are required only when they are legally mandated and/or if resources are being accumulated for general long-term debt principal and interest payments maturing in future years. The principal source of revenues for the Debt Service Fund is ad valorem taxes.

The Permanent Improvement Fund is a constitutional fund used to account for the acquisition of and improvements to land and buildings on a continuing basis. The Commissioners Court in its annual budget includes specific appropriations for expenditures from this fund. The principal source of revenues for the Permanent Improvement Fund is ad valorem taxes.

The Local Provider Participation Fund was established to allow local hospital providers to access more federal funds, to ensure access to care, and reduce the level of uncompensated care in the community. The County is authorized to collect a mandatory payment from each institutional health care provider located in the County and to use the funds for certain intergovernmental transfers and indigent care programs.

The PFC Jail Operating Fund was established to account for the operations related to the McLennan County Public Facility Corporation's Jack Harwell Detention Center. There is no statutory requirement for a budget for this fund by the Commissioners Court as all of its activity is governed by the Board of Directors of the Public Facilities Corporation. The principal source of revenues for the PFC Jail Operating Fund is revenue generated from leasing the facility to McLennan County.

The PFC Debt Service Fund was established to account for the accumulation of resources, as required in the trust indenture, in an interest and sinking fund for use in future principal and interest obligations related to the McLennan County Public Facility Corporation (the "PFC) Revenue Bonds Series 2009. There is no statutory requirement for a budget for this fund by the Commissioners' Court as all of its activity is governed by the trust indenture and the Board of Directors of the Public Facilities Corporation.

2. The government reports the following nonmajor governmental funds:

Special revenue funds are used to account for specific revenue sources (other than for capital projects) that are legally restricted to expenditures for specified purposes. These legal restrictions can come from outside the County or from Commissioners Court.

3. Additionally, the government reports the following fund types:

Agency funds are used to account for situations where the County's role is strictly custodial in nature. As a result, all assets reported in an agency fund are offset by a liability to the party on whose behalf the assets are held. Most of these funds are held for legal reasons. Those reasons vary from funds held in trust for minors to funds placed in escrow awaiting a decision and order by the presiding court. Additional agency funds are used to account for cash on hand for tax collections for other governmental entities or for fees collected on behalf of the State and other governmental entities.

Private-purpose trust funds are used to report any trust arrangement under which principal and income benefit individuals, private organizations, or other government.

Internal service fund is used to finance, administer, and account for McLennan County's self-insured health program, whose purpose is to provide health insurance to employees of the County. Due to the fact that these

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

services predominantly benefit governmental rather than business-type functions, the fund has been included with the governmental activities in the government-wide statements.

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

(d) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/ Fund Balance

1. Deposits and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with an original maturity of three months or less from the date of acquisition.

Investments for the County are reported at fair value, except for the position in investment pools. The County's investment in pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

State statutes and the County's official Investment Policy authorize the County to invest in obligations of the U.S. Treasury and Governmental Agencies, commercial paper, repurchase agreements, bankers' acceptances, money market mutual funds and direct obligations of the State of Texas.

2. Receivables and Payables

Property taxes are recognized as revenues in the period for which the taxes are levied, regardless of the lien date. Property taxes for the County are levied based on taxable value on the lien date of January 1 prior to September 30 of the same year. They become due October 1 of that same year and delinquent after January 31 of the following year. Accordingly, receivables and revenues for prior-year levies delinquent at year-end are reflected on the government-wide statement based on the full accrual method of accounting and under the modified accrual method in the fund statements.

Accounts receivables from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables and revenues at the time all eligibility requirements have been met and reimbursable costs are incurred.

Reimbursements for services performed are recorded as receivables and revenues when they become eligible for accrual in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unavailable revenue in the fund statements.

Receivables are shown net of an allowance for uncollectable accounts.

Lending or borrowing between funds is reflected as "due to" or "due from" (current portion) or "advances to/from other funds" (noncurrent). Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. Inter-fund activity reflected in "due to" or "due from" is eliminated on the government-wide statements.

3. Inventories and Prepaid Items

Inventories of the governmental funds consist of expendable supplies and materials held for consumption. The purchase method is used to account for inventory in the governmental funds. The cost is recorded as an expenditure at the time individual items are purchased.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost is recorded as a prepaid item at the time of purchase, but year-end adjustments are made to show the consumption of those items. Prepaid items are considered to be nonspendable fund balance.

4. Capital Assets — Primary Government

Capital assets, which include land, buildings and improvements, equipment, and infrastructure, are reported in the government-wide financial statements. The capitalization threshold for the capitalization of assets is set forth in the following schedule:

| Asset Category | Capitalization Threshold |
|---------------------------------------------------------------------|--------------------------|
| Land and Land Improvements | Capitalize all |
| Improvements Other than Buildings | \$5,000 |
| Buildings and Building Improvements | |
| Buildings and Building Improvements | \$50,000 |
| Building Improvements performed/acquired after building acquisition | \$5,000 |
| Infrastructure | |
| Roads constructed, acquired or donated since 1980 | Capitalize all |
| New Roads constructed 10/01/03 | \$300,000 per mile |
| Major road renovations and improvements | \$100,000 per mile |
| Bridges | \$20,000 |
| Furniture, Equipment and Other Personal Property | \$5,000 |
| Leasehold Improvements | \$5,000 |
| Works of Art and Historical Treasures | \$5,000 |

Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at acquisition cost, 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 repair that do not add to the value of the asset or materially extend the asset's life are expensed rather than capitalized.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Capital assets and infrastructure are depreciated using the straight line method over the following estimated useful lives:

| Asset Category | Years |
|--------------------------------|----------|
| Buildings | 30 |
| Building and land improvements | 10 to 25 |
| Infrastructure - Bridges | 25 to 45 |
| Infrastructure - Roads | 20 |
| Furniture and Fixtures | 10 |
| General Equipment | 5 to 15 |
| Computer hardware | 3 to 5 |
| Passenger vehicles | 5 |
| Road maintenance equipment | 10 |

5. Longevity Pay

Substantially all employees of the County are compensated on a salary basis. However there are some employees, mostly part-time or temporary, who are compensated on an hourly basis. Prior to the 2014 fiscal year, longevity pay was added to the salary of each official and each salaried employee of the County at the rate of \$5.00 per month for each full year of continuous service by the employee. As of October 1, 2013, these total amounts were frozen and no additional longevity amounts were added to salaries.

6. Compensated Absences

Vacation leave is accrued by each salaried employee of the County each month at the rate of 0.0385 hours for each hour worked, up to a maximum balance of 200 hours. After 120 months of continuous service, the accrual rate is increased to 0.0577 hours for each hour worked. Upon termination, employees are paid for all accrued and unused vacation time.

Sick leave accrues at the rate of 0.0462 hours for each hour worked, up to a maximum balance of 480 hours. Sick leave may be used only for sickness and other specified purposes, and no payment is made for any unused sick leave.

A liability for unused vacation and compensatory time for all full-time employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences: a) leave or compensation is attributable to services already rendered, and b) leave or compensation is not contingent on a specific event (such as illness).

GASB Interpretation 6 indicates that liabilities for compensated absences should only be recognized in the fund statements to the extent the liabilities have matured and are payable out of current available resources. Compensated absences are paid from the same respective governmental operating funds as the ones from which the related employees' salaries were paid.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Compensated absences are accrued in the government-wide statements.

7. Health & Life Insurance Benefits

The County, at its expense, provides term life insurance coverage in the face amount of \$10,000 for each official and each salaried employee.

Each official and each salaried employee is provided medical coverage through the County's self-insured health program. The County pays medical coverage premiums for eligible employees up to the lowest premium amount for the base plan of the County. Covered officials and employees may, at their own option and expense, have their spouses or dependents included in this medical coverage.

8. Other Benefits

Deferred Compensation Plan - The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits the deferral of Federal Income Tax on the deferred portion of the employee's compensation until future years. The deferred portion of compensation is not available to employees until termination, retirement, death, or unforeseeable emergency, and becomes subject to Federal Income Tax when constructively received by the employee.

The assets of the Plan are not subject to the claims of the general creditors of the County, and, in accordance with GASB 32 "Accounting for Deferred Compensation Plans," the County does not present the assets and liabilities related to the Plan in the agency funds.

Cafeteria Plan - All salaried employees have the option of participating in a cafeteria plan created in accordance with Internal Revenue Code Section 125. This plan affords tax savings to the employee by allowing the County to provide certain benefits under an agreement with the employee that reduces the employee's taxable income while increasing his actual net income.

9. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities. On new bond issues, bond premiums and discounts, as well as deferred gains or losses on refunding of debt, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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.

10. Fund Balance Classification

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 County 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.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

- **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 court resolution of the Commissioners Court, the County's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Court removes or changes the specified use by means of a majority vote of Commissioners Court during an open meeting. 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 County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners Court.
- **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.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Fund balances by program as of September 30, 2017 pursuant to GASB No. 54 are as follows:

| | General Fund | Debt Service Fund | Permanent Improvement Fund | Local Provider Participation Fund | PFC Debt Service Fund | Other Governmental Funds | Total |
|-------------------------------------------------|----------------------|---------------------|----------------------------|-----------------------------------|-----------------------|--------------------------|----------------------|
| Fund Balances: | | | | | | | |
| Nonspendable: | | | | | | | |
| Prepaid Assets | \$ 963,555 | \$ - | \$ - | \$ - | \$ - | \$ 373 | \$ 963,928 |
| Restricted for: | | | | | | | |
| Adult Probation | - | - | - | - | - | 1,525,487 | 1,525,487 |
| Alcohol/Drug Abuse Prevention/Treatment | - | - | - | - | - | 44,153 | 44,153 |
| Alcohol/Drug Court Program | - | - | - | - | - | 205,549 | 205,549 |
| Asset Forfeitures | - | - | - | - | - | 592,007 | 592,007 |
| Child Abuse Prevention | - | - | - | - | - | 34,538 | 34,538 |
| Child Protective Services | 3,153 | - | - | - | - | - | 3,153 |
| Contract Elections | - | - | - | - | - | 373,655 | 373,655 |
| County & District Court Technology | - | - | - | - | - | 57,783 | 57,783 |
| County Clerk Records Management | - | - | - | - | - | 147,043 | 147,043 |
| Courthouse Security | - | - | - | - | - | 300,786 | 300,786 |
| Court-Initiated Guardianship | - | - | - | - | - | 56,040 | 56,040 |
| Court Records Preservation | - | - | - | - | - | 100,288 | 100,288 |
| Court Reporter Service | - | - | - | - | - | 87,793 | 87,793 |
| Debt Service | - | 1,851,440 | - | - | 5,046,600 | - | 6,898,040 |
| Dispute Resolution | - | - | - | - | - | 15,123 | 15,123 |
| District Attorney Programs | - | - | - | - | - | 698,387 | 698,387 |
| District Clerk Errors & Omissions | - | - | - | - | - | 112,316 | 112,316 |
| District Clerk Records Management | - | - | - | - | - | 71,724 | 71,724 |
| District Clerk Records Technology | - | - | - | - | - | 36,381 | 36,381 |
| Elections | - | - | - | - | - | 3,401 | 3,401 |
| Family Protection | - | - | - | - | - | 7,651 | 7,651 |
| Farm-to-Market/Flood Control | - | - | - | - | - | 36,863 | 36,863 |
| Jail Commissary | - | - | - | - | - | 230,678 | 230,678 |
| Justice Court Building Security | - | - | - | - | - | 67,923 | 67,923 |
| Justice Technology | - | - | - | - | - | 220,867 | 220,867 |
| Juvenile Delinquency Prevention | - | - | - | - | - | 1,170 | 1,170 |
| Juvenile Probation | - | - | - | - | - | 907,923 | 907,923 |
| Law Enforcement Officer Standards and Education | - | - | - | - | - | 49,897 | 49,897 |
| Law Library | - | - | - | - | - | 407,852 | 407,852 |
| Local Emergency Planning Committee Grant | - | - | - | - | - | 207 | 207 |
| Local Provider Participation | - | - | - | 10,549,932 | - | - | 10,549,932 |
| Records Management | - | - | - | - | - | 196,528 | 196,528 |
| Sheriff's Office-Supplies | 920 | - | - | - | - | - | 920 |
| Tax Office Administration | - | - | - | - | - | 170,574 | 170,574 |
| Title IV-E | - | - | - | - | - | 352,473 | 352,473 |
| Truancy Court | - | - | - | - | - | 2,532 | 2,532 |
| Unclaimed Juvenile Restitution | - | - | - | - | - | 2,507 | 2,507 |
| Venue Project (Fairgrounds) | - | - | - | - | - | 123,057 | 123,057 |
| Waco Foundation Grant | - | - | - | - | - | 223 | 223 |
| Committed for: | | | | | | | |
| Capital Projects | - | - | 19,225,496 | - | - | - | 19,225,496 |
| Economic Development | 9,968,375 | - | - | - | - | - | 9,968,375 |
| Unassigned | 41,483,384 | - | - | - | - | (67,500) | 41,415,884 |
| Total Fund Balance | <u>\$ 52,419,387</u> | <u>\$ 1,851,440</u> | <u>\$ 19,225,496</u> | <u>\$ 10,549,932</u> | <u>\$ 5,046,600</u> | <u>\$ 7,174,252</u> | <u>\$ 96,267,107</u> |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County 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 year.
- Difference in projected and actual earnings on pension assets - This difference is deferred and amortized over a closed five year period.
- Deferred charges on refundings - A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has the following items that qualify for reporting in this category.

- Difference in 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.
- Deferred inflows from property taxes - This amount represents property taxes collected for the next year that are recognized as a deferred inflow opposed to recognizing revenue in the current fiscal year.
- Deferred inflows from other sources - This amount represents grant revenue earned in the current year but not yet received and is recognized as a deferred inflow opposed to recognizing revenue in the current fiscal year.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan 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.

II. DETAILED NOTES ON ALL FUNDS

(a) Deposits and Investments

Investments in the local government investment pool TexPool (rated AAAM by S&P) are stated at fair value, which is the same as the value of the pool shares. Investments in the mutual funds and collateralized savings accounts are stated at fair value, which is the same as the value of the fund shares.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Regulatory oversight for the operations of these external investment pools is found in the Public Funds Investment Act of the State of Texas. Required oversight for the pools includes compliance with investment guidelines, annual independent audits and the establishment of oversight committees.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

I. Interest Rate Risk

In accordance with the County's investment policy, exposure to declines in fair values is managed by limiting the weighted average maturity of its investment portfolio to two years for individual securities and 90 days for investment pools.

As of September 30, 2017, the County had the following investments:

| Investment Type | Maturity Date | Fair Value | Weighted Average Maturity (Days) | Rating |
|------------------------------------------------------------------------------------------|---------------|------------|----------------------------------------|--------|
| <i>Collateralized Certificates of Deposit:</i> | | | | |
| Central National Bank (CD) | 12/31/2017 | 4,124,548 | 92 | N/A |
| Central National Bank (CD) | 11/30/2018 | 5,170,755 | 426 | N/A |
| Central National Bank (CD) | 4/30/2019 | 5,150,659 | 577 | N/A |
| Central National Bank (CD) | 10/31/2019 | 4,054,420 | 761 | N/A |
| Central National Bank (CD) | 10/31/2018 | 2,022,241 | 396 | N/A |
| <i>Investment Pools, Money Market Mutual Funds, and Collateralized Savings Accounts:</i> | | | | |
| BBVA Compass | N/A | 2,381,996 | N/A | N/A |
| TexPool | N/A | 8,223,008 | N/A | AAAm |
| TexPool | N/A | 9,829,921 | N/A | AAAm |
| TexPool | N/A | 3,995,080 | N/A | AAAm |
| TexPool | N/A | 19,618,279 | N/A | AAAm |
| <i>US Government Agencies and Treasuries:</i> | | | | |
| <i>Fair Value Measurement Using Level 1:</i> | | | | |
| Federal Home Mortgage Corp. | 9/29/2022 | 1,990,000 | 1825 | AA+ |
| <i>Fair Value Measurement Using Level 2:</i> | | | | |
| Federal Farm Credit Bank | 10/19/2020 | 1,967,322 | 1115 | AA+ |
| Federal National Mortgage Association | 7/21/2021 | 1,978,023 | 1390 | AA+ |
| Federal Home Loan Mortgage Corp. | 8/25/2021 | 3,967,151 | 1425 | AA+ |
| Federal Home Loan Banks | 9/30/2021 | 1,981,271 | 1461 | AA+ |
| Federal National Mortgage Association | 10/28/2021 | 1,982,469 | 1489 | AA+ |
| Federal Home Loan Banks | 7/20/2022 | 1,999,996 | 1754 | AA+ |
| Federal Home Loan Banks | 8/26/2022 | 2,011,729 | 1791 | AA+ |
| Federal Home Loan Mortgage Corp. | 8/24/2020 | 3,969,644 | 1059 | AA+ |
| <i>Portfolio Weighted Average Maturity</i> | | | 490 | |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

2. Credit Risk

According to County policy, all of its cash deposits are required to be in an institution that either has its main office or a branch in Texas, and are guaranteed by the Federal Deposit Insurance Corporation or are secured as principal by obligations described in clauses (1) through (4). Furthermore, the County limits its exposure to credit risk by limiting its investments to (1) obligations of the United States or its agencies; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full credit and good faith of the State of Texas or the United States or their respective agencies; (4) obligations of states, agencies, counties, cities and other political subdivisions of the State of Texas rated as to investment quality by a nationally recognized investment rating firm not less than an A or its equivalent; (5) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (4) or in any other manner and amount provided by law for county and district deposits; (6) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligation described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the state of Texas; (7) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by two nationally recognized credit rating agencies; (8) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a weighted average stated maturity of 90 days or less; (9) no-load mutual funds registered with the Securities and Exchange Commission that have a weighted average maturity of less than two years, invest exclusively in obligations described in this policy and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and (10) government investment pools that invest solely in such obligations, provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service.

3. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County mitigates these risks by requiring diversification in the investment portfolio in its investment policy. All funds must be sufficiently diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

4. Custodial Credit Risk Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. At September 30, 2017, all cash deposits with financial institutions were insured by a combination of FDIC coverage, FHLB letters of credit, or collateralized securities.

5. Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2017, the County has no custodial risk with regard to its investments.

(b) Property Taxes and Other Receivables

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied prior to September 30, become due on October 1 and are delinquent after January 31. The County bills and collects property taxes for itself and for the following entities: Cities of Bellmead, Beverly Hills, Bruceville-Eddy, Crawford, Gholson, Hallsburg, Hewitt, Lacy-Lakeview, Leroy, Lorena, Mart, McGregor, Moody, Riesel, Robinson, Waco, West, Woodway; McLennan Community College; Independent School Districts of Axtell, Bosqueville, Bruceville-Eddy, China Spring, Connally, Crawford, Gholson, Hallsburg, LaVega, Lorena, Mart, McGregor, Midway, Moody, Riesel, Robinson, Waco, West; Special Districts of Castleman Creek, Elm Creek Watershed, Downtown

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Public Improvement District, and McLennan and Hill Counties Tehuacana Creek Water Control District #1. The County is the only taxing entity controlled by the Commissioners Court; and the County Tax Assessor/Collector acts only as an intermediary in the collection and distribution of property taxes to the other entities. The County collects and distributes delinquent tax collection fees for law firms.

Collections of the property taxes and subsequent remittances to the proper entities are accounted for in the Tax Assessor/Collector's Agency Fund. Tax collections are recorded as payable to entities at gross amount due before tax collection commission with the exception of McLennan Community College and the Special Districts of Elm Creek Watershed and the McLennan and Hill Counties Tehuacana Creek Water Control District #1 Benefit Tax. Collection commissions are recorded for the County as a receivable from the entities, with the exception of McLennan County's own taxes, whereas the commission is applied to the receivable when received from the entity. Tax collections deposited for the County are distributed on a monthly basis to the General Fund, Permanent Improvement Fund, and Debt Service Fund of the County. Distribution to the funds is based on the tax rate established for each fund by Commissioners Court order for the tax year for which the collections are made.

The County participates in three Tax Increment Finance (TIF) Districts. When a TIF District is created with the approval of all participating governmental taxing entities, the property included in the District has its assessed valuation frozen at the base year value. As projects are developed which increase the assessed valuation of the property, the resulting increases in taxes in years after the base year is returned to the TIF zones which financed the improvements, with taxes on the base year provided to the governmental taxing entities.

The County collects taxes on behalf of a taxing entity having a Special Improvement District (SID), reports delinquencies to the taxing entity, and does not manage the collection of delinquencies for the taxing entity.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Grant receivables are monies not yet received from Grantor Agencies to pay for the current period budgeted expenditures.

The County is authorized by the Constitution of Texas to levy taxes up to \$0.80 per \$100 of assessed valuation for general governmental services and the payment of principal and interest on certain permanent improvement long-term debt. In addition, the County is authorized to levy taxes up to \$0.30 per \$100 of assessed valuation to be used exclusively for the construction and maintenance of farm-to-market roads or flood control.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

At the end of the current fiscal year, the various components of property taxes and other receivables reported in the governmental funds were as shown in the table following:

| <i>Delinquent Property Taxes Receivable:</i> | Taxes | Allowance | Net |
|---------------------------------------------------|---------------------|---------------------|----------------------|
| General Fund | \$ 2,633,739 | \$ (263,374) | \$ 2,370,365 |
| Debt Service Fund | 205,873 | (20,587) | 185,286 |
| Permanent Improvement Fund | 41,616 | (4,162) | 37,454 |
| Other Governmental Funds | 46,683 | (4,668) | 42,015 |
| Total Delinquent Property Taxes Receivable | \$ 2,927,911 | \$ (292,791) | \$ 2,635,120 |
| <i>Due from Other Funds:</i> | | | |
| General Fund | | | \$ 460,204 |
| PFC Jail Operating Fund | | | 2,223,430 |
| PFC Debt Service Fund | | | 453,713 |
| Total Due from Other Funds | | | \$ 3,137,347 |
| <i>Due from Other Governments:</i> | | | |
| General Fund | | | \$ 4,551,462 |
| Other Governmental Funds | | | 382,801 |
| Total Due from Other Governments | | | \$ 4,934,263 |
| <i>Miscellaneous Receivables:</i> | | | |
| General Fund | | | \$ 192,308 |
| Other Governmental Funds | | | 14,478 |
| Total Miscellaneous Receivables | | | \$ 206,786 |
| Total Receivables | | | \$ 10,913,516 |

(c) Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition costs, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. In accordance with GASB 34, depreciation policies were adopted to include useful lives and classification by function. Infrastructure assets are valued in two ways: either actual historical cost where the amount can be determined from existing records or using current cost deflated to the year of construction. Once the historical cost is determined, regardless of how it is determined, the asset is then depreciated over its useful life.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---------------------------------------------|--------------------------|-------------------|---------------------|-----------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$3,583,301 | \$ 378,667 | \$ (49,950) | \$3,912,018 |
| Construction in progress | 57,747 | 1,605,596 | (34,350) | 1,628,993 |
| Total capital assets, not being depreciated | 3,641,048 | 1,984,263 | (84,300) | 5,541,011 |
| Capital assets being depreciated: | | | | |
| Buildings | 129,800,801 | 646,770 | (124,373) | 130,323,198 |
| Improvements, other than buildings | 1,499,625 | - | (3,461) | 1,496,164 |
| Machinery and equipment | 28,658,918 | 3,281,824 | (505,314) | 31,435,428 |
| Infrastructure | 37,279,031 | 1,206,001 | (40,540) | 38,444,492 |
| Total assets being depreciated | 197,238,375 | 5,134,595 | (673,688) | 201,699,282 |
| Less accumulated depreciation for: | | | | |
| Buildings | (61,540,578) | (4,081,529) | 106,350 | (65,515,757) |
| Improvements, other than buildings | (765,904) | (70,286) | 3,017 | (833,173) |
| Machinery and equipment | (20,692,175) | (2,029,187) | 497,869 | (22,223,493) |
| Infrastructure | (28,972,999) | (640,228) | 40,540 | (29,572,687) |
| Total accumulated depreciation | (111,971,656) | (6,821,230) | 647,776 | (118,145,110) |
| Total capital assets being depreciated, net | 85,266,719 | (1,686,635) | (25,912) | 83,554,172 |
| Governmental activities, net | \$ 88,907,767 | \$ 297,628 | \$ (110,212) | \$ 89,095,183 |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Depreciation expense for FY 2017 was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|------------------------------------------------------|--------------|
| General Government | \$ 828,917 |
| Judicial | 363,274 |
| Public safety | 3,249,185 |
| Public transportation | 1,497,099 |
| Health | 33,688 |
| Welfare | 19,093 |
| Culture and recreation | 826,237 |
| Conservation | 3,737 |
| Total depreciation expense — governmental activities | \$ 6,821,230 |

(d) Long-Term Liabilities

1. General Obligation Bonds

McLennan County issues general obligation bonds and tax notes to finance major capital projects. The following listing of debt is for general obligation bonds and tax notes outstanding at September 30, 2017; the debt is for governmental activities only:

| Description | Interest Rates | Fiscal Year of Issue | Date of Maturity | Bonds Outstanding |
|----------------------------------------|----------------|----------------------|------------------|-------------------|
| Refunding Bonds Series 2011 | 2.0 – 4.0% | 2011 | 2021 | \$ 2,570,000 |
| Refunding Bonds Series 2014 | 1.5% | 2015 | 2023 | 5,195,000 |
| Certificates of Obligation Series 2016 | 2.0 – 3.0% | 2016 | 2036 | 9,105,000 |
| Certificates of Obligation Series 2017 | 3.0 – 4.0% | 2017 | 2037 | 9,415,000 |
| Total General Obligation Debt | | | | \$ 26,285,000 |

Refunding Bonds Series 2011 totaling \$5,885,000, dated July 11, 2011 were issued to refund general obligation bonds series 2001 issued by the County. These bonds were issued at an effective rate of 2.42%. The proceeds were deposited with an escrow agent for the purpose of redeeming the refunded bonds on July 28, 2011. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position.

Refunding Bonds Series 2014 totaling \$8,800,000, dated August 26, 2014 were issued to refund Certificates of Obligation Series 2003 and Refunding Bonds Series 2005 issued by the County. These bonds were issued at an

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

effective rate of 1.5%. The proceeds were deposited with an escrow agent for the purpose of redeeming the refunded bonds on September 3, 2014. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position.

Certificates of Obligation Series 2016 totaling \$9,550,000 dated August 1, 2016 were issued to pay, in whole or in part, contractual obligation incurred in connection with (1) acquiring, designing, constructing, renovating, repairing, and improving County roads and bridges (including any utilities relocation) and drainage incidental thereto; (2) acquiring, designing, constructing, renovating, repairing, and improving various existing County facilities and buildings (to include Americans with Disabilities Act improvements and modifications), including County Courthouse, County Records Building, County Annex Building, and Shrine Building; (3) 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 (4) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. These serial bonds were issued at an average coupon rate of 2.34%.

Certificates of Obligation Series 2017 totaling \$9,415,000 dated August 1, 2017 were issued to pay, in whole or in part, contractual obligation incurred in connection with (1) acquiring, designing, constructing, renovating, repairing, and improving County roads and bridges (including any utilities relocation) and drainage incidental thereto; (2) acquiring, designing, constructing, renovating, repairing, and improving various existing County facilities and buildings (to include Americans with Disabilities Act improvements and modifications), including County Courthouse, County Records Building, County Annex Building, and Shrine Building; (3) 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 (4) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. These serial bonds were issued at an average coupon rate of 3.143%.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

2. Contractual Maturities of General Obligation Bonds

The annual debt service for general obligation bonds is as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|-------------------------------------|----------------------|---------------------|-----------------------|
| 2018 | 3,035,000 | 654,543 | 3,689,543 |
| 2019 | 3,345,000 | 632,510 | 3,977,510 |
| 2020 | 2,635,000 | 544,735 | 3,179,735 |
| 2021 | 1,875,000 | 478,335 | 2,353,335 |
| 2022 | 1,225,000 | 419,135 | 1,644,135 |
| 2023 - 2027 | 4,625,000 | 1,626,600 | 6,251,600 |
| 2028 - 2032 | 4,755,000 | 997,475 | 5,752,475 |
| 2033 – 2037 | 4,790,000 | 364,540 | 5,154,540 |
| Total | \$ 26,285,000 | \$ 5,717,873 | \$ 32,002,873 |

3. Revenue Bonds

Project Revenue Refunding Bonds Taxable Series 2014 totaling \$50,045,000, dated November 1, 2014 were issued to refund Revenue Bonds Series 2009 issued by the McLennan County Public Facility Corporation, a blended component unit of the County. The bonds are being issued to refund certain outstanding obligations of the issuer issued to finance and refinance the costs of constructing and equipping a multi-classification secure detention center and pay certain costs of issuance relating to the bonds. The Revenue Bonds Series 2009 (the "Bonds") were issued to provide funds to (i) finance a project that consists of the development, design, construction and equipping of an 816 bed secure detention center on land in McLennan County, adjacent to the County's existing detention facility (the land, improvements and its operations are collectively referred to as the "Project"), (ii) to establish a reserve fund for the payment of the Bonds; (iii) to pay interest on the Bonds for a period of approximately 16 months from the date of issuance; (iv) to pay certain operating expenses during construction and for up to one year following completion of construction; and (v) to pay costs of issuing the Series 2009 Bonds. The land on which the detention center is built is subject to a ground lease between the County and the PFC.

In relation to the Project, The County has entered into a lease (the "Lease") with the PFC, wherein the County will lease the new detention center from the PFC. The consideration to be paid by the County to the PFC will be all rental payments received from third party entities that pay the County to house their inmates in the new detention facility.

The Revenue Refunding Bonds Series 2014 are payable from and secured by a pledge of all of the PFC's right, title and interest in the Lease, all project revenues, including the right to receive the rental payments (from the

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

third parties housing their inmates in the detention center), other amounts due under the Lease, amounts deposited in the debt service fund, and all other accounts established under the Indenture.

The County is required under the Lease to pay rental payments which are sufficient in both time and amount, to pay when due, the principal and interest on the Bonds. The County's obligation to pay the rental payments and other additional amounts required pursuant to the Lease, including operation and maintenance costs, is payable solely from the County's project revenues (rentals from third parties) and other available money appropriated annually for such purpose by the Commissioners Court for such purpose. If the County fails to appropriate available money which, together with the County's project revenues, is sufficient for the payment of all such amounts in any fiscal year of the County, the Lease will terminate and the PFC may take possession of the Project.

| Description | Interest Rate | Fiscal Year of Issue | Date of Maturity | Bonds Outstanding |
|--------------------------------------------------------------------------------------------------------|------------------|-------------------------|---------------------|----------------------|
| McLennan County Public Facility Corporation Project Revenue Refunding Bonds, Taxable Series 2014 | Variable | 2014 | 2035 | \$ 43,080,000 |

4. Contractual Maturities of Revenue Bonds

The annual debt service for revenue bonds is as follows:

| Fiscal Year Ending September 30, | Principal | Interest | Total Debt Service |
|-------------------------------------|----------------------|----------------------|-----------------------|
| 2018 | 1,650,000 | 1,699,992 | 3,349,992 |
| 2019 | 1,685,000 | 1,666,497 | 3,351,497 |
| 2020 | 1,725,000 | 1,626,394 | 3,351,394 |
| 2021 | 1,770,000 | 1,579,302 | 3,349,302 |
| 2022 | 1,820,000 | 1,530,627 | 3,350,627 |
| 2023 – 2027 | 10,080,000 | 6,685,276 | 16,765,276 |
| 2028 – 2032 | 12,240,000 | 4,527,532 | 16,767,532 |
| 2033 – 2036 | 12,110,000 | 1,296,878 | 13,406,878 |
| Total | \$ 43,080,000 | \$ 20,612,498 | \$ 63,692,498 |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

5. Debt Related to Capital Assets

The following table presents the amount of the different types of debt that are related to the County's Capital Assets:

| Type of Debt | Total Debt | Debt Related to Capital Assets |
|--------------------------|---------------|--------------------------------|
| General Obligation Bonds | \$ 26,285,000 | \$ 26,285,000 |
| Revenue Bonds | 43,080,000 | 43,080,000 |
| Total | \$ 69,365,000 | \$ 69,365,000 |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

6. Changes in Noncurrent Liabilities

Noncurrent liabilities for the year ended September 30, 2017, all of which were from governmental activities, were as follows:

| | General Obligation Bonds | Revenue Bonds | Capital Leases | Compensated Absences | Net Pension Liability | Other Post Employment Benefits | Total Governmental Activity |
|---------------------|--------------------------------|---------------|----------------|-------------------------|--------------------------|--------------------------------------|-----------------------------------|
| <u>PRINCIPAL:</u> | | | | | | | |
| Beginning balance | \$ 19,900,000 | \$ 44,710,000 | \$ 24,670 | \$ 2,225,748 | \$ 34,872,648 | \$ 23,330,863 | \$ 125,063,929 |
| Additions | 9,415,000 | - | - | 2,869,681 | - | 3,700,190 | 15,984,871 |
| Reductions | 3,030,000 | 1,630,000 | 24,670 | 2,197,895 | 142,179 | 652,745 | 7,677,489 |
| Ending Balance | 26,285,000 | 43,080,000 | - | 2,897,534 | 34,730,469 | 26,378,308 | 133,371,311 |
| Due within one year | \$ 3,035,000 | \$ 1,650,000 | - | \$ 2,318,027 | - | - | \$ 7,003,027 |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Debt service for general obligation bonds and revenue bonds is provided by the Debt Service Funds and compensated absences and OPEB are liquidated by the same funds in which the respective employees are employed.

(f) Post Employment Benefits Other Than Pension Benefits

1. Plan Description

The County's OPEB provides health benefits to eligible retired employees and is a single employer plan. Separately issued financial statements are not available for the plan.

2. Plan Participants

Members are eligible for retirement with TCDRS at age 60 with 8 years of service, or at any age with 30 years of service, or when age plus years of service equals 75.

3. Normal Retirement Benefits

Health Care Benefit Eligibility Conditions

With the exception of employees who come to work for the County on or after January 1, 2009, who do not qualify for retiree health care benefits, each full-time employee who separates from the service of McLennan County, and who, at the time of their separation, is eligible for retirement under Texas County and District Retirement System (TCDRS) guidelines, and either (1) has total creditable service with TCDRS and continuous service as a full-time employee of McLennan County of twenty (20) years or more, or (2) has total creditable service with TCDRS and continuous service as an elected official of McLennan County of twelve (12) years or more; and whose full salary has been paid entirely from McLennan County funds or Grant funds received from Federal, State or other Local Governments by McLennan County, for 20 years or more, or (2) for twelve (12) years or more as an elected official, and is covered by the McLennan County group health program at the time of their retirement, will have the same dollar amount contributed towards their group medical premiums by the County that the County contributes towards such premiums for its full-time employees.

Retiree Health Care Benefit

For eligible retirees, premiums for medical coverage shall be paid by the County, at the same dollar amount contributed towards their group medical premiums by the County that the County contributes toward such premiums for its full-time employees. If the retiree qualifies (must have Medicare A & B, and may have to be 65 or older) and such plan is available through the County, the retiree may elect a senior health plan instead of a traditional group health plan. If the retiree elects a senior health plan and the premium amount is less than the premium amount the County contributes for its full-time employees, the County will pay the lower premium. Premiums for spouses and dependents shall be paid by the retiree.

Each full-time employee who separates from the service of McLennan County, and who is eligible for retirement under TCDRS, and who is covered by the McLennan County group health program at the time of such retirement, but does not meet the minimum requirements set forth above, will be permitted to continue their participation in current or future group health or senior health plan programs, provided by McLennan County for its employees and retirees, at their sole expense. Coverage for spouses and dependents who are participants in the County's group health program on the date of the employee's retirement may also be continued. Premiums for spouses and dependents shall also be paid by the retiree.

McLennan County Commissioners Court has the authority to establish and amend the benefits of the plan.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Early Retirement Benefits

Only members who have the required time of continuous service are eligible for retiree health benefits. There are no "early retirement benefits".

Deferred Retirement Benefits

Eligible members who terminate employment without retiring with TCDRS can continue the same medical coverage in which they were enrolled at termination. If eligible members elect not to continue medical coverage at termination, they are not eligible for retiree health care benefits when they activate their retirement from TCDRS.

Death-in-Service Retirement Benefits

Provided the County is able to secure an agreement with its insurance providers for such coverage and such does not cause an increase in the County's insurance costs which the County, in its sole discretion, finds unacceptable, in the event of the death of a retiree who has retired from service with McLennan County under TCDRS, the spouse and dependents will be allowed, at their own option and expense, to continue their participation in such health insurance plans as may be provided by the County. This eligibility extends only to persons covered by the retiree's insurance at the time of the death of the retiree. This eligibility for any spouse ceases at the end of the month in which the spouse marries.

Funding Policy and Annual OPEB Cost

The County's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The County's annual OPEB cost for the fiscal year ending September 30, 2017 is as follows:

| | |
|----------------------------------------|----------------------|
| Annual required contribution | \$ 3,676,082 |
| Interest on OPEB obligation | 933,235 |
| Adjustment to ARC | (909,127) |
| Annual OPEB cost (expense) end of year | 3,700,190 |
| Net estimated employer contributions | (652,745) |
| Increase in net OPEB obligation | \$ 3,047,445 |
| Net OPEB obligation beginning of year | 23,330,863 |
| Net OPEB obligation end of year | <u>\$ 26,378,308</u> |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

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

| Fiscal Year Ended | Annual OPEB Cost | Employer Amount Contributed | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|-----------------------------|--------------------------------------------|---------------------|
| 9/30/2016 | \$ 3,374,555 | \$ 580,058 | 17.2% | \$ 20,320,826 |
| 9/30/2017 | \$ 3,590,010 | \$ 579,973 | 16.2% | \$ 23,330,863 |
| 9/30/2018 | \$ 3,700,190 | \$ 652,745 | 17.6% | \$ 26,378,308 |

Funded status

The funded status of the County's retiree health care plan, under GASB Statement No. 45 as of December 31, 2015 is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | Ratio of UAAL to Annual Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|---------------------|--------------|------------------------|-----------------------------------------|
| | (a) | (b) | (b-a) | (a/b) | (c) | ((b-a)/c) |
| 12/31/2015 | \$0 | \$46,061,212 | \$46,061,212 | 0.0% | 40,199,327 | 114.6% |

Under the reporting parameters, the County's retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by \$46,061,212 at December 31, 2015. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 114.6%. The County's plan follows a pay-as-you-go funding. McLennan County Commissioners Court has the authority to establish and amend the funding policy.

Actuarial methods and assumptions

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

Projections of health benefits are based on the plan as understood by the County and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the County and the County's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Actuarial Methods and Assumptions

| | |
|---------------------------|------------------------------------------------------------------------------|
| Inflation Rate | 2.50% per annum |
| Investment Rate of Return | 4.00%, net of expenses |
| Actuarial Cost Method | Projected Unit Credit Cost Method |
| Amortization Method | Level as a percentage of employee payroll |
| Amortization Period | 30-year open amortization |
| Payroll Growth | 3.00% per annum |
| Pre-65 Medical Trend | Initial rate of 7.50%, declining to an ultimate rate of 4.75% after 13 years |
| Post-65 Medical Trend | Initial rate of 7.50%, declining to an ultimate rate of 4.25% after 15 years |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the County's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(g) Inter-fund Receivables, Payable Balances and Transfers

Inter-fund Receivables and Payables Balances

Activity between funds that represent the current portion of lending/borrowing and inter-fund charges for goods and services arrangements outstanding at fiscal year end are referred to as "due to/from other funds." The composition of inter-fund balances as of September 30, 2017, is as follows

| Receivable Fund | Payable Fund | Amount |
|--------------------|-----------------------|---------------------|
| General | Proprietary | \$ 206,237 |
| General | Nonmajor governmental | 253,967 |
| PFC Jail Operating | General | 2,223,430 |
| PFC Debt Service | PFC Jail Operating | 453,713 |
| Proprietary | General | <u>632,454</u> |
| Total | | <u>\$ 3,769,801</u> |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Inter-fund Transfers

During the fiscal year ending September 30, 2017, the General Fund transferred \$5,845,464 to the Juvenile Probation Local Fund. The Homeland Security Grant Fund transferred \$1,500 to the General Fund. (In a prior fiscal year, funds were transferred from the General Fund to the Homeland Security Grant Fund in order to meet the granting agency's cash match requirement. There was an excess of funds (\$1,500) once the grant was closed and this excess was transferred back to the General Fund.) A transfer was made from the PFC Jail Operating Fund to the PFC Debt Service Fund for \$3,501,007 in order to support principal and interest payments.

| | Transfers Out | | | Totals |
|---------------------|---------------|--------------------------------|-------------------------------|--------------|
| | General Fund | Other Governmental Funds | PFC Jail Operating Fund | |
| <u>Transfers In</u> | | | | |
| General Fund | \$ - | \$ 1,500 | \$ - | \$ 1,500 |
| PFC Debt Service | - | - | 3,501,007 | 3,501,007 |
| Other Governmental | 5,845,464 | - | - | 5,845,464 |
| Total Transfers Out | \$ 5,845,464 | \$ 1,500 | \$ 3,501,007 | \$ 9,347,971 |

III. OTHER INFORMATION

(a) Risk Management

Property and liability risks - The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. In order to mitigate losses from such occurrences, the County has risk management programs, as discussed on the following page.

The County participates in insurance risk pools offered by the Texas Association of Counties to provide general liability, public officials' liability, vehicular liability, district and county clerk errors and omissions, and law enforcement liability. Another Texas Association of Counties risk pool provides adequate property damage insurance for the County's buildings and their contents. Premiums are paid into the pool annually, and are based on the prior year's experience factors.

The County operates a mainframe computer installation on which nearly the entire County's court records are maintained. The data is backed up daily and stored offsite in a fireproof storage area.

Texas statutes require public officials' faithful performance bonds for substantially all elected and appointed officials. In addition, the County carries a blanket employee dishonesty bond in the amount of \$100,000 per occurrence for all County employees. In addition, tax office employees are covered by a \$100,000 comprehensive dishonesty, disappearance and destruction policy.

The County maintains and operates a helicopter. Aircraft liability in the amount of \$1,000,000 is carried through a commercial insurance company.

The vehicles owned by the County are insured for liability coverage only, with the exception of those vehicles purchased under a capital lease. The County assumes the risk for any property damage to its own vehicles, unless a third party causes the damage, in which case subrogation is pursued with the third party. Full coverage is maintained on the leased vehicles.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

Workers' compensation coverage is provided through a risk pool set up by the Texas Association of Counties. Premiums are paid into the pool based on the prior year's experience factor.

Health and medical insurance for employees is offered through the County's self-insured health program to each official and salaried employee. The County pays medical coverage premiums for eligible employees up to the lowest premium amount for the base plan of the County. Other supplemental insurance policies are offered to employees at their option and cost through third-party providers.

Changes in coverage from prior year - There were no decreases in the insurance coverage maintained by the County in 2017 compared to 2016.

Settlements exceeding coverage - No settlements against the County exceeded the related insurance coverage in fiscal year 2017.

(b) Contingent Liabilities

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. If any expenditures are determined to be disallowed under terms of the grant, the County would be required to reimburse the grantor agency. A contingent liability was not established because potential reimbursements are considered immaterial.

The County is named as a defendant in various lawsuits related to alleged violations of constitutional and employment rights. In all of these cases, the County is denying the allegations and is vigorously defending against them. County officials estimate that the potential claims against the County will not materially adversely affect the financial position of the County.

(c) Tax Abatements

The County enters into economic development agreements designed to promote development and redevelopment within the County, stimulate commercial activity, and enhance the property tax base and economic vitality of the County. This program reduces the assessed property values as authorized under Chapter 381 of the Texas Local Government Code.

The County has entered into various agreements that reduce property taxes. Agreements for a reduction of taxable values call for a reduction of 5% to 90% for 4 to 10 years. Each developer requires a monetary commitment and a minimum employment requirement. For fiscal year 2017, the County rebated \$35,462 in property taxes.

(d) Related Party Transactions

The general laws of the State of Texas prohibit transactions, with certain exceptions, between the County and its officers or between the County and any entity in which a County officer may have a substantial interest. During the fiscal year ended September 30, 2017, there were no transactions which are known to have violated these prohibitions.

IV. EMPLOYEE RETIREMENT SYSTEM

(a) Plan Description

The County participates in a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent, multiple-employer, public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org. All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

(b) Benefits Provided

TCDRS provides retirement, disability and survivor benefits for all eligible employees. Benefit terms are established by the TCDRS Act. The benefit terms may be amended as of January 1, each year, but must remain in conformity with the Act.

Members can retire at age 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. Updated annuity purchase rates will go into effect for post-2017 benefit accruals earned after 2017. Benefits accrued before 2018 will not be impacted by this update. This change was reflected in the 2016 actuarial valuation.

1. 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 | 548 |
| Inactive employees entitled to but not yet receiving benefits | 62 |
| Active employees | 939 |
| | <u>1,549</u> |

(c) Contributions

The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer’s governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer’s plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability.

Employees for the County were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the County were 13.97% and 14.38% in calendar years 2016 and 2017, respectively. The County’s contributions to TCDRS for the year ended September 30, 2017, were \$9,410,950, and were equal to the required contributions.

(d) Net Pension Liability

The County’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.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

1. Actuarial Assumptions

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

| | |
|---------------------------|-------------------------------------------------------------------|
| Inflation | 3.0% per year |
| Overall payroll growth | 3.5% per year |
| Investment Rate of Return | 8.1%, net of pension plan investment expense, including inflation |

Mortality rates for active members, retirees, and beneficiaries were based on the following:

| | |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Depositing members | The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% fo the MP-2014 Ultimate scale after that. |
| Service retirees, beneficiaries and non-depositing members | The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females. |
| Disabled retirees | RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females. |

The actuarial assumptions that determined the total pension liability as of December 31, 2016, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except for mortality assumptions. Mortality assumptions were updated for the 2015 valuation to reflect projected improvements.

The long-term expected rate of return on pension plan investments is 8.10%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. The application of the investment return assumption was changed for purposes of determining plan liabilities in the 2016 actuarial valuation. All plan liabilities are now valued using an 8% discount rate. Previously, some liabilities were valued using a 7% discount rate and others were valued using a 9% discount rate.

The long-term expected rate of return on TCDRS is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2017 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

| Asset Class | Benchmark | Allocation ⁽¹⁾ | Inflation ⁽²⁾ |
|------------------------------------|------------------------------------------------------------------------------------|---------------------------|--------------------------|
| US Equities | Dow Jones U.S. Total Stock Market Index | 13.50% | 4.70% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾ | 16.00% | 7.70% |
| Global Equities | MSCI World (net) Index | 1.50% | 5.00% |
| International Equities - Developed | MSCI World Ex USA (net) | 10.00% | 4.70% |
| International Equities - Emerging | MSCI EM Standard (net) Index | 7.00% | 5.70% |
| Investment-Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | 0.60% |
| High-Yield Bonds | Citigroup High-Yield Cash-Pay Capped Index | 3.00% | 3.70% |
| Opportunistic Credit | Citigroup High-Yield Cash-Pay Capped Index | 2.00% | 3.83% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 10.00% | 8.15% |
| Distressed Debt | Cambridge Associates Distressed Securities Index ⁽⁴⁾ | 3.00% | 6.70% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index | 2.00% | 3.85% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 3.00% | 5.60% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index ⁽⁵⁾ | 6.00% | 7.20% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 20.00% | 3.85% |

⁽¹⁾ Target asset allocation adopted at the April 2017 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0% per Cliffwater's 2017 capital market assu.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

2. Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

3. Changes in the Net Pension Liability

| | Increase/(Decrease) | | |
|------------------------------------------------|-------------------------|------------------------|-------------------------------|
| | Total Pension Liability | Fiduciary Net Position | Net Pension Liability/(Asset) |
| | (a) | (b) | (a)-(b) |
| Balances as of December 31, 2015 | \$ 238,390,416 | \$ 203,517,768 | \$ 34,872,648 |
| Changes for the year: | | | |
| Service cost | 5,669,584 | - | 5,669,584 |
| Interest on total pension liability (1) | 18,998,266 | - | 18,998,266 |
| Effect of economic/demographic gains or losses | 1,015,390 | - | 1,015,390 |
| Refund of contributions | (492,805) | (492,805) | - |
| Benefit payments | (13,017,281) | (13,017,281) | - |
| Administrative expenses | - | (163,507) | 163,507 |
| Member contributions | - | 2,084,443 | (2,084,443) |
| Net investment income | - | 15,053,289 | (15,053,289) |
| Employer contributions | - | 8,823,920 | (8,823,920) |
| Other (2) | - | 27,273 | (27,273) |
| Balances as of December 31, 2016 | <u>\$ 250,563,570</u> | <u>\$ 215,833,101</u> | <u>\$ 34,730,469</u> |

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

4. Sensitivity Analysis

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

| | 1% Decrease 7.1% | Discount Rate 8.1% | 1% Increase 9.1% |
|-------------------------------|---------------------|-----------------------|---------------------|
| Total pension liability | \$ 281,638,324 | \$ 250,563,570 | \$ 224,670,690 |
| Fiduciary net position | <u>215,833,101</u> | <u>215,833,101</u> | <u>215,833,101</u> |
| Net pension liability/(asset) | 65,805,223 | 34,730,469 | 8,837,589 |

5. Pension Plan Fiduciary Net Position

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

(e) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the County recognized pension expense of \$10,967,826.

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

At September 30, 2017, the County 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 | \$ 812,312 | \$ 1,160,581 |
| Changes in actuarial assumptions | 1,520,275 | - |
| Difference between projected and actual investment earnings | 12,948,912 | - |
| Contributions subsequent to the measurement date | 4,993,573 | - |
| Total | \$ 20,275,072 | \$ 1,160,581 |

\$4,993,573 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 and inflows of resources related to pensions will be recognized in pension expenses as follows:

| Year Ended September 30, | | |
|-----------------------------|----|-----------|
| 2018 | \$ | 4,624,397 |
| 2019 | | 4,624,397 |
| 2020 | | 4,404,461 |
| 2021 | | 467,663 |
| Thereafter | | - |

MCLENNAN COUNTY, TEXAS

Notes to the Basic Financial Statements

September 30, 2017

| | | | |
|-------------------------------------------|----------------------------------------------------|----------------------------------------------------|----------------------------------------------------|
| Actuarial valuation date | 12/31/14 | 12/31/15 | 12/31/16 |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Amortization method | Level percentage of payroll, closed | Level percentage of payroll, closed | Level percentage of payroll, closed |
| Amortization period | 20 | 20 | 13.3 |
| Asset Valuation method | SAF: 5-yr smoothed value ESF: Fund value | SAF: 5-yr smoothed value ESF: Fund value | SAF: 5-yr smoothed value ESF: Fund value |
| Actuarial Assumptions: | | | |
| Investment return ⁽¹⁾ | 8.0% | 8.0% | 8.0% |
| Projected salary increases ⁽¹⁾ | 4.9% | 4.9% | 4.9% |
| Inflation | 3.0% | 3.0% | 3.0% |
| Cost-of-living adjustments | 0.0% | 0.0% | 0.0% |

⁽¹⁾Includes inflation at the stated rate

APPENDIX D
Form of Opinion of Bond Counsel

(this page intentionally left blank)



Norton Rose Fulbright US LLP
300 Convent Street, Suite 2100
San Antonio, Texas 78205-3792
United States

Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the “McLennan County, Texas Venue Project Revenue and Refunding Bonds (Combined Venue Tax), Series 2018A” (the *Bonds*), dated July 1, 2018 in the aggregate principal amount of \$35,510,000, we have reviewed the legality and validity of the issuance thereof by the Commissioners Court of McLennan County, Texas (the *Issuer*). The Bonds are issuable in fully registered form only, generally in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof, and have Stated Maturities of June 1 in each of the years 2019 through 2037, June 1, 2040, June 1, 2043, June 1, 2048, and June 1, 2058, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the Issuer’s obligations being refunding by certain proceeds of the Bonds, and with respect to the exclusion of the interest on the Bonds 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 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 Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds.

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 Commissioners Court of the Issuer in connection with the issuance of the Bonds, including the Order and the certification (the *Sufficiency Certificate*) by SAMCO Capital Markets, Inc., as Financial Advisor to the Issuer, concerning the sufficiency of the cash deposited with the paying agent/registrar for the Issuer’s bonds refunded with the proceeds of the Bonds (the *Refunded Bonds*); (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 Bonds 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

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

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “MCLENNAN COUNTY, TEXAS VENUE PROJECT REVENUE AND REFUNDING BONDS (COMBINED VENUE TAX), SERIES 2018A”

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.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds 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 Bonds are payable from a first and prior lien on and pledge of the Pledged Revenues, being a first and prior lien on and pledge of the Hotel Occupancy Tax Revenues, a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues, and a lien on and pledge of such other money, income, and revenues held in the Coverage Stabilization Account of the Venue Project Fund all as set forth in the Order. In the Order, the Issuer retains the right to issue subordinate lien obligations secured in whole or in part by a lien on and pledge of the Subordinate Pledged Revenues 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, upon deposit of the amount of money specified in the Sufficiency Certificate with the paying agent/registrar of the Refunded Bonds, and further deposited thereby on this day to the interest and sinking fund for the Refunded Bonds, the Refunded Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held by the paying agent/registrar for the Refunded Bonds in the Refunded Bond's interest and sinking fund, the County order authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Sufficiency Certificate concerning the sufficiency of the cash deposited with the Refunded Bonds' paying agent/registrar for the purposes of paying the Refunded Bonds refunded and to be retired with the proceeds of the Bonds and the interest thereon.

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 Order and in reliance upon the Sufficiency Certificate concerning the sufficiency of the cash and investments deposited with the Refunded Bonds' paying agent/registrar and 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 Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds 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 Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “MCLENNAN COUNTY, TEXAS VENUE PROJECT REVENUE AND REFUNDING BONDS (COMBINED VENUE TAX), SERIES 2018A”

FOR TAXABLE YEARS THAT BEGAN BEFORE JANUARY 1, 2018, interest on the Bonds 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 Bonds. Ownership of tax-exempt obligations such as the Bonds 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 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

(this page intentionally left blank)

APPENDIX E

Form of Municipal Bond Insurance Policy

(this page intentionally left blank)



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.