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**PRELIMINARY OFFICIAL STATEMENT**  
**Dated: October 29, 2018**

**NEW ISSUE: Book-Entry-Only**

Unenhanced Rating: S&P - "A+"  
(See "BOND INSURANCE," "BOND INSURANCE  
GENERAL RISKS," and "RATING" herein.)

*In the opinion of Bond Counsel (defined below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Resolution (defined below) and subject to the matters described 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, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" herein.)*

**\$18,100,000\***

**SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
CONTRACT REVENUE REFUNDING BONDS, NEW SERIES 2018**

**Dated Date: November 15, 2018**

**Due: February 1, as shown on inside cover**

Interest on the Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, New Series 2018 (the "Bonds") accrues from the Dated Date (identified above) and is payable initially on February 1, 2019 and on each August 1 and February 1 thereafter until stated maturity or prior redemption. Principal of the Bonds will be paid at stated maturity or prior redemption only upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas. Proceeds from the sale of the Bonds will be used (i) to refund, for debt service savings, a portion of the Corporation's (defined herein) currently outstanding obligations, as identified in Schedule I attached hereto (the "Refunded Obligations") and (ii) for the payment of the costs of issuance relating to the Bonds. (See "PLAN OF FINANCING - Authorization and Purpose" herein.) The Bonds are issued in fully registered form in the denomination of \$5,000 principal amount or any integral multiple thereof and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. The Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to owners of beneficial interest in the Bonds. Purchasers of the Bonds will not receive certificates evidencing their beneficial ownership therein. (See "BOOK-ENTRY-ONLY SYSTEM.")

The Bonds are special obligations of the Schertz/Seguin Local Government Corporation (the "Corporation" or the "Issuer") issued pursuant to the Act, Chapters 1201 and 1207, as amended, Texas Government Code, Chapter 22, as amended, Texas Business Organization Code, and Chapter 552, as amended, Texas Local Government Code, and the resolution authorizing the issuance of the Bonds adopted on September 20, 2018 (the "Resolution"). As permitted by the provisions of Chapter 1207, Texas Government Code, as amended, in the Resolution, the Corporation delegated the authority to certain Corporation officials (each an "Authorized Representative") to execute an approval certificate (the "Approval Certificate") establishing the final terms of the sale for the Bonds.

The Bonds are special obligations of the Corporation payable solely both as to principal and interest from and secured, together with the currently outstanding New Series Bonds (hereinafter defined), solely by a junior and inferior lien on and pledge of the Bond Payment (as defined in the Contract) portion of the Annual Payments (as defined in the Resolution) to be paid severally by the City of Schertz, Texas and the City of Seguin, Texas (collectively, the "Cities"), to the Corporation, pursuant to the Regional Water Supply Contract, dated as of November 15, 1999, as amended (the "Contract"), among the Corporation and the Cities, which lien on and pledge of the Bond Payment is junior and inferior to the first and prior lien on and pledge of the Bond Payment portion of the Annual Payments made under the Contract that secures the repayment of the Corporation's outstanding Priority Bonds (defined herein) until such time as no Priority Bonds remain outstanding (at which point in time the junior lien on and pledge of the Bond Payment portion of the Annual Payments securing the repayment of the New Series Bonds will be elevated to a first and prior lien position). Under the Contract, each City is unconditionally obligated to pay, on a several (and not joint) basis, to the Corporation, as an operation and maintenance expense from the gross revenues of such City's utility system, such City's proportionate share of the amounts necessary to pay, on an annual basis, the Bond Payment (being an amount sufficient to pay scheduled principal of and interest on Corporation debt secured thereby and payable therefrom), Operation and Maintenance Expenses (defined herein), and Overhead Expenses (defined herein). The Bonds represent the fourth series of "New Series Bonds", being obligations of the Corporation payable from and ratably secured by a junior lien on and pledge of the Bond Payment portion of the Annual Payments, established for the purpose of realizing relief from certain covenants that are otherwise applicable to additional bonds (referred to in the Resolution as Additional Priority Bonds) secured by a first and prior lien on and pledge of the Bond Payment portion of the Annual Payment but will not be so applicable to New Series Bonds (including, primarily, an obligation to fund a debt service reserve at the time of issuance of a series of New Series Bonds).

The Bonds are also secured by a lien on and pledge of the money in all funds created, established and maintained by the Resolution. **The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the Corporation or the Cities (no mortgage on real property of the Corporation or the Cities is granted), and the registered owner of a Bond shall never have the right to demand payment of the Bonds from any funds raised or to be raised by taxation or from any other sources or properties of the Corporation, the Cities, or the State of Texas.** The Bonds are not payable from or secured by any other revenues of the Corporation, the Cities or any other entity, and the Corporation is not authorized to levy any ad valorem tax in payment thereof. The Corporation reserves the right to issue Additional New Series Bonds and Additional Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise; however, in the Resolution of the Corporation's Board of Directors (the "Board") authorizing the issuance of the Bonds, the Board has covenanted to no longer issue additional Priority Bonds secured by a first and prior lien on and pledge of the Bond Payment portion of the Annual Payment. (See "THE BONDS - Additional New Series Bonds; Inferior Lien Obligations; Additional Obligations" herein.)

The Bonds are subject to redemption prior to maturity as described herein. (See "THE BONDS - Redemption Provisions.")

The Issuer has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond guaranty policy and will consider the purchase of such policy after an analysis of the bids from such insurance providers has been made by the Issuer's Financial Advisor. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS.")

**MATURITY SCHEDULE**

(See Inside Cover Page)

*The Bonds are offered when, as and if issued, and received by the initial purchasers thereof (the "Underwriters") and 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, Bond Counsel, San Antonio, Texas. Certain matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Certain legal matters will be passed upon by the Attorney General of the State of Texas, the Corporation's General Counsel, the City Attorney for the City of Seguin, and the Special City Attorney for the City of Schertz. The Bonds are expected to be available for delivery to the Underwriters through the services of DTC on or about December 13, 2018.*

**HILLTOP SECURITIES**

**UBS FINANCIAL SERVICES INC.**

\* Preliminary, subject to change.

STATED MATURITY SCHEDULE<sup>(1)</sup>

\$18,100,000

SCHERTZ/SEGUN LOCAL GOVERNMENT CORPORATION  
CONTRACT REVENUE REFUNDING BONDS, NEW SERIES 2018

Cusip No. Prefix<sup>(2)</sup> 806643

<b>Maturity Date (Feb. 1)</b>	<b>Principal Amount(\$)<sup>(1)</sup></b>	<b>Interest Rate (%)</b>	<b>Initial Yield (%)</b>	<b>Cusip No. Suffix<sup>(2)</sup></b>
2020	510,000			
2021	530,000			
2022	555,000			
2023	580,000			
2024	595,000			
2025	625,000			
2026	650,000			
2027	675,000			
2028	700,000			
2029	735,000			
2030	765,000			
2031	790,000			
2032	825,000			
2033	860,000			
2034	905,000			
2035	955,000			
2036	1,005,000			
2037	1,055,000			
2038	1,105,000			
2039	1,165,000			
2040	1,225,000			
2041	1,290,000			

(Accrued interest from November 15, 2018 to be added)

The Bonds maturing on or after February 1, 2028, are subject to redemption, in whole or in part, at the option of the Corporation, at the par value thereof plus accrued interest on February 1, 2027, or any date thereafter. See "THE BONDS - Redemption Provisions."

<sup>(1)</sup> Preliminary, subject to change.

<sup>(2)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of owners of the Bonds. 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 Corporation, the Financial Advisor, or the Underwriters is responsible for the selection or correctness of the CUSIP Numbers set forth herein.

**SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION**

**Board of Directors**

Robin V. Dwyer ..... President  
 T. "Jake" Jacobs ..... Vice President  
 David Reiley ..... Secretary  
 Charles Kelm ..... Assistant Secretary  
 Ken Greenwald ..... Treasurer  
 Bert Crawford ..... Ex-officio - Councilmember - City of Schertz  
 Don Keil ..... Ex-officio - Mayor - City of Seguin

**Administration**

Amber Briggs Beard                      Acting General Manager  
 Angela Kleinschmidt                  Administrative Assistant

**CITY OF SCHERTZ, TEXAS**

**CITY OF SEGUIN, TEXAS**

**City Council**

**City Council**

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Michael Carpenter	Mayor
Mark Davis	Councilmember, Place 1
Ralph Gutierrez	Councilmember, Place 2
Scott Larson	Councilmember, Place 3
Cedric Edwards	Councilmember, Place 4
David Scagliola	Mayor Pro-Tem, Place 5
Angelina Kiser	Councilmember, Place 6
Bert Crawford	Councilmember, Place 7

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Don Keil	Mayor
Fonda Mathis	Mayor Pro-Tem, District 6
Ernest Leal	Councilmember, District 1
Jeannette Crabb	Councilmember, District 2
Jim Lievens	Councilmember, District 3
Chris Rangel	Councilmember, District 4
*	Councilmember, District 5
Donna Dodgen	Councilmember, District 7
Mark Herbold	Councilmember, District 8

\* Vacant due to Councilmember's death this summer.

**Administrative Officers**

**Administrative Officers**

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Brian James	Acting City Manager
Dudley Wait	Executive Director
James Walters	Director of Finance
Brenda Dennis	City Secretary
Charles Zech	City Attorney

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Douglas G. Faseler	City Manager
Rick Cortes	Assistant City Manager
Naomi Manski	City Secretary
Susan Caddell	Director of Finance
Andrew Quittner	City Attorney

**CONSULTANTS AND ADVISORS**

Patrick Lindner - Davidson, Troilo, Ream & Garza PC	General Counsel
Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
Armstrong, Vaughan & Assoc., P.C. Universal City, Texas	Auditor
SAMCO Capital Markets, Inc., San Antonio, Texas	Financial Advisor
Orrick, Herrington & Sutcliffe LLP, Austin, Texas	Special City Attorney for Schertz

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The 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 Corporation or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Corporation's undertaking to provide certain information on a continuing basis.

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 pursuant to its responsibilities to the Issuer, and, as applicable, to investors under the federal securities laws, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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.

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

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 THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

None of the Corporation, the Underwriters, or the Financial Advisor makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System as described herein under the caption "BOOK-ENTRY-ONLY SYSTEM" or with respect to any information concerning the bond insurer or its municipal bond guaranty policy as described herein (or incorporated by reference) under the caption "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS".

The agreements of the Corporation 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 CONCERNING THE BONDS.

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

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## SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the Appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement including the Appendices hereto. Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Resolution (defined herein) authorizing the issuance of the Bonds. See “APPENDIX F - CERTAIN PROVISIONS OF THE RESOLUTION - Definitions” herein.

<b>The Issuer</b>	Schertz/Seguin Local Government Corporation, a public, non-profit corporation (the “Corporation” or the “Issuer”) created by the Cities of Schertz and Seguin, Texas (individually, a “City,” and collectively, the “Cities”), pursuant to Subchapter D of Chapter 431, Texas Transportation Code, as amended (the “Act”), to aid, assist and act on behalf of the Cities in acquiring, constructing, financing and operating a water utility system (the “System”). The Corporation’s System is separate and distinct from each of the Cities’ utility systems (the “Cities’ Systems”). The Corporation employs a full-time general manager and is governed by a board of five directors who are appointed by the City Council of each City. (See “THE CORPORATION.”)
<b>The Bonds</b>	\$18,100,000* Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, New Series 2018, dated November 15, 2018, maturing serially on February 1 in each of the years 2020 through 2041. Interest on the Bonds will be paid semiannually on February 1 and August 1, commencing February 1, 2019 until stated maturity or prior redemption. (See “THE BONDS - General Description.”)
<b>Purpose of Bonds</b>	Proceeds from the sale of the Bonds will be used for the purpose of providing funds (i) for the discharge and final payment of certain obligations of the Issuer as disclosed in Schedule I hereto (the “Refunded Obligations”) for debt service savings and (ii) for the payment of the costs of issuance relating to the Bonds. (See “PLAN OF FINANCING - Authorization and Purpose” herein.)
<b>Authority for Issuance</b>	The Bonds are special obligations of the Corporation issued pursuant to the Act, Chapters 1201 and 1207, as amended, Texas Government Code, Chapter 22, as amended, Texas Business Organization Code, and Chapter 552, as amended, Texas Local Government Code, and the resolution authorizing the issuance of the Bonds adopted on September 20, 2018 (the “Resolution”). As permitted by the provisions of Chapter 1207, Texas Government Code, as amended, in the Resolution, the Corporation delegated the authority to certain Corporation officials (each an “Authorized Representative”) to execute an approval certificate (the “Approval Certificate”) establishing the final terms of the sale for the Bonds.
<b>Security</b>	The Bonds are special obligations of the Corporation issued pursuant to the Resolution and are secured, together with the currently outstanding New Series Bonds, solely by a junior and inferior lien on and pledge of the Bond Payment portion of the Annual Payments to be received by the Corporation from the Cities pursuant to the Regional Water Supply Contract, dated as of November 15, 1999, as amended (the “Contract”), among the Corporation and the Cities, which is junior and inferior to the first and prior lien on and pledge of the Bond Payment portion of the Annual Payments made under the Contract that secure the repayment of the Corporation’s outstanding Priority Bonds (defined herein) until such time as no Priority Bonds remain outstanding (at which point in time the junior lien on and pledge of the Bond Payment portion of the Annual Payments securing the repayment of the New Series Bonds will be elevated to a first and prior lien position). The Cities’ payment obligations under the Contract are (i) payable as an operations and maintenance expense from the gross revenues of the Cities’ Systems and (ii) several, and not joint, obligations of each City to pay such City’s proportionate share of the Bond Payment portion of each Annual Payment. (See “THE BONDS – Security and Source of Payment”, “THE BONDS - Defaults and Remedies,” and “APPENDIX B - Financial Information Regarding the Cities’ Systems.”)
<b>Redemption</b>	The Bonds maturing on or after February 1, 2028, are redeemable, in whole or in part, at the option of the Corporation on any date on February 1, 2027, or any date thereafter, as described herein. (See “THE BONDS – Redemption Provisions.”)
<b>Rating</b>	S&P Global Ratings (“S&P”) has assigned an underlying rating on the Bonds of “A+” (without regard to credit enhancement). (See “RATINGS” herein.)

\* Preliminary, subject to change.

<b>Bond Insurance</b>	The Issuer has made application to municipal bond insurance companies to have payment of the principal and interest on the Bonds insured by a municipal bond insurance policy and will consider the purchase of such policy after an analysis of the bids from such insurance providers has been made by the Issuer's Financial Advisor. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)
<b>Additional New Series Bonds; Inferior Obligations; Additional Obligations</b>	In the Resolution the Corporation reserves the right to issue Additional New Series Bonds without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise; however, in the Resolution of the Corporation's Board of Directors (the "Board") authorizing the issuance of the Bonds, the Board has covenanted to no longer issue Additional Priority Bonds secured by a first and prior lien on and pledge of the Bond Payment portion of the Annual Payment. In addition to Additional New Series Bonds, the Corporation has reserved the right to issue additional obligations payable from a lien on and pledge of all or part of the Bond Payment portion of the Annual Payments, so long as such lien and pledge is subordinate to the lien thereon and pledge thereof securing the currently outstanding New Series Bonds, the Bonds and any Additional New Series Bonds from time to time issued by the Corporation. The Corporation has also reserved the right to issue Additional Obligations (defined herein), which are obligations of the Corporation secured by and payable from certain other Corporation revenues (but excluding the Bond Payment portion of the Annual Payments). The Corporation's issuance of any additional obligations is without limitation as to principal amount, but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See "THE BONDS - Additional New Series Bonds; Inferior Lien Obligations; Additional Obligations.")
<b>Book-Entry-Only System</b>	The Bonds are initially issuable only to Cede & Co., the nominee of DTC, pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
<b>Tax Exemption</b>	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, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" herein.)
<b>Payment Record</b>	The Issuer has never defaulted on the payment of its bonded indebtedness.
<b>Delivery</b>	When issued, anticipated on or about December 13, 2018.
<b>Legality</b>	Delivery of the Bonds is subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Bond Counsel, San Antonio, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, for the Issuer by its General Counsel, for the City of Seguin by the City Attorney, and for the City of Schertz by the Special City Attorney.

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**OFFICIAL STATEMENT  
relating to**

**\$18,100,000\***

**SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
CONTRACT REVENUE REFUNDING BONDS, NEW SERIES 2018**

**INTRODUCTORY STATEMENT**

This Official Statement, which includes the cover page, the inside cover page schedule, and appendices hereto, provides certain information regarding the issuance by the Schertz/Seguin Local Government Corporation (the “Corporation” or the “Issuer”) of its \$18,100,000\* Contract Revenue Refunding Bonds, New Series 2018 (the “Bonds”). Capitalized terms used in this Official Statement have the same meaning assigned to such terms in the resolution (the “Resolution”) authorizing the issuance of the Bonds adopted by the Corporation’s Board of Directors (the “Board”) on September 20, 2018, except as otherwise indicated herein. As permitted by the provisions of Chapter 1207, Texas Government Code, as amended, in the Resolution, the Corporation delegated the authority to certain Corporation officials (each an “Authorized Representative”) to execute an approval certificate (the “Approval Certificate”) establishing the final terms of the sale for the Bonds. (See “SELECTED PROVISIONS OF THE RESOLUTION” attached hereto as APPENDIX F.)

The Corporation is a public, non-profit corporation created by the Cities of Schertz and Seguin, Texas (individually, a “City,” and collectively, the “Cities”), pursuant to Subchapter D of Chapter 431, Texas Transportation Code, as amended (the “Act”), to aid, assist and act on behalf of the Cities in acquiring, constructing, financing and operating a water utility system (the “System”). The Corporation’s System is separate and distinct from each of the Cities’ utility systems (the “Cities’ Systems”). The Corporation is governed by a board of five directors who are appointed by the City Council of each City. (See “THE CORPORATION.”) The Cities are political subdivisions of the State of Texas (the “State”) and municipal corporations organized and existing under the laws of the State and the Cities’ respective home rule charters. For information regarding the Cities and their respective utility systems, see Appendices B, C and D, as appropriate, of this Official Statement.

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

There follows in this Official Statement brief descriptions of the Project (defined herein), the Bonds, the Corporation, the Cities, the Contract, and the Cities’ Systems. 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 Corporation’s Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Bonds 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 Corporation’s and the Cities’ undertaking to provide certain information on a continuing basis.)

**PLAN OF FINANCING**

**Authorization and Purpose**

The Bonds are special obligations of the Corporation issued pursuant to the Act, Chapters 1201 and 1207, as amended, Texas Government Code, Chapter 22, as amended, Texas Business Organization Code, and Chapter 552, as amended, Texas Local Government Code, and the Resolution authorizing the issuance of the Bonds. Proceeds from the sale of the Bonds will be used for the purpose of providing funds (i) for the discharge and final payment of certain obligations of the Corporation as identified in Schedule I attached hereto (the “Refunded Obligations”) for debt service savings and (ii) for the payment of the costs of issuance relating to the Bonds.

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\* Preliminary, subject to change.



## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, along with the Corporation's contribution (if any), will be applied approximately as follows:

### Sources:

Principal Amount of Bonds	\$ _____
Corporation's Contribution from Interest & Sinking Fund	
[Net] Original Issue Reoffering Premium/Discount	
Accrued Interest on the Bonds	
<b>Total Sources of Funds</b>	\$ _____

### Uses:

Deposit to Escrow Fund	\$ _____
Issuance Expenses (includes bond insurance premium fee)	
Underwriters' Discount	
Deposit to Interest and Sinking Fund	
Costs of Issuance	
<b>Total Uses of Funds</b>	\$ _____

## THE BONDS

### General Description

The Bonds will be dated November 15, 2018 and will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds will bear interest from November 15, 2018. Interest will be paid semiannually on each February 1 and August 1, commencing February 1, 2019. Interest will accrue on the Bonds on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as book-entry-only securities pursuant to arrangements made with The Depository Trust Company, New York, New York. (See "BOOK-ENTRY-ONLY SYSTEM.")

Principal on the Bonds will be payable to the registered owner (the "Owner") at stated maturity or prior redemption upon presentation and surrender of such Bonds at the corporate office of the paying agent/registrar (the "Paying Agent/Registrar"), initially Zions Bancorporation, National Association, Houston, Texas. Upon discontinuance of the Book-Entry-Only System, interest on the Bonds will be payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to registered Owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date for Interest Payment" herein), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will mature on the dates, in the amounts and bear interest at the rates as set forth on the inside front cover page of this Official Statement.

### Refunded Obligations

A description and identification of the Refunded Obligations appears in Schedule I attached hereto. The Refunded Obligations are to be paid in full on the redemption date specified on Schedule I from funds to be deposited pursuant to a certain Escrow Deposit Letter (the "Escrow Agreement") between the Issuer and Zions Bancorporation, National Association, Houston, Texas (the "Escrow Agent"), dated as of September 20, 2018.

The Resolution provides that from the proceeds of the sale of the Bonds received from the Underwriters, together with an Issuer's cash contribution, if any, the Issuer will deposit with the Escrow Agent an amount which will be sufficient to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") uninvested or used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the Corporation, will certify as to the sufficiency of the amounts initially deposited to the Escrow Fund without regard to investment to pay the principal of and interest on the Refunded Obligations when due at the scheduled date of redemption.

Simultaneously with the issuance of the Bonds, the Issuer 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 money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the Corporation will have effected the defeasance of the Refunded Obligations pursuant to the terms of the Resolution. As a result

of such defeasance, the Refunded Obligations will no longer be payable from the Bond Payment (defined herein) portion of the Annual Payments (defined herein), but will be payable solely from the cash and investments (if any) on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the Corporation for the purpose of a limitation or indebtedness for any other purpose. Amounts on deposit in the Escrow Fund are not available for payment of the Bonds.

The Issuer has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

### **Legality**

The Bonds are offered when, as and if issued, 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 addressed by the Corporation's General Counsel, each of the City Attorneys, and counsel to the Underwriters. The legal opinion of Bond Counsel will be printed on or attached to the Bonds. (See "OTHER INFORMATION - Legal Matters" and APPENDIX G.)

### **Establishment of Lien Securing New Series Bonds**

The Corporation has heretofore issued, and there are now outstanding, special obligations of the Corporation that are secured by and payable from a first and prior lien on and pledge of the Bond Payment portion of the Annual Payments (such outstanding obligations, the "Priority Bonds"). Because of covenant requirements included in the Corporation resolutions (the "Priority Resolutions") authorizing the issuance of the outstanding Priority Bonds (including, primarily, the requirement to fund a debt service reserve fund with cash or debt service reserve fund surety policy from a provider with minimum thresholds concerning credit quality, as determined by credit rating), the Corporation has determined that continuing to issue additional Priority Bonds subject to these covenants is no longer financially necessary or desirable. Additionally, in the Priority Resolutions, the Corporation has reserved the right to issue obligations payable from a lien on and pledge of the Bond Payment portion of the Annual Payments that is inferior to the lien thereon and pledge thereof securing the repayment of the Priority Bonds. Accordingly, the Corporation has determined to establish a junior and inferior lien revenue finance system, whereby "New Series Bonds" (including the currently outstanding New Series Bonds and the Bonds), payable from a lien on and pledge of the Bond Payment portion of the Annual Payments that is immediately junior and inferior to the lien thereon and pledge thereof securing the Priority Bonds, are now and hereafter authorized to be issued for authorized purposes and pursuant to the terms and conditions specified in the Resolution. In conjunction with this fourth issuance of New Series Bonds, the Corporation will covenant in the Resolution to not issue additional Priority Bonds so that, upon the time that no Priority Bonds are outstanding pursuant to the terms of the respective Priority Resolutions, the New Series Bonds at such time outstanding will be elevated to (and thereafter enjoy) a first and prior lien position relative to the lien on and pledge of the Bond Payment portion of the Annual Payments serving as the source of security and repayment therefor.

### **Security and Source of Payment**

The Bonds are special obligations of the Corporation, issued as "New Series Bonds" and such New Series Bonds (together with any Additional New Series Bonds hereafter issued) are payable, both as to principal and interest, from and secured solely by a junior and inferior lien on and pledge of the Bond Payment portion of the Annual Payments paid by the Cities to the Corporation pursuant to the Contract among the Corporation and the Cities, which lien thereon and pledge thereof is junior and inferior to the first and prior lien on and pledge of the Bond Payment portion of the Annual Payments made under the Contract that secure the repayment of the Corporation's outstanding Priority Bonds until such time as no Priority Bonds remain outstanding (at which point in time, the lien on and pledge of the Bond Payment portion of the Annual Payments securing the New Series Bonds will be elevated to and enjoy a first and prior lien status). The Bonds are also secured by a pledge of the money in the funds confirmed, created, established, and/or maintained under the Resolution for their benefit (as described in the Resolution). Finally, and though not pledged as an additional source of security, the New Series Bonds (including the Bonds) may be paid from excess Net Revenues of the System, subject and subordinate to the senior and superior lien thereon and pledge thereof securing the repayment of any Additional Obligations (defined herein) hereafter issued or use of the same to pay amounts owing with respect to the Priority Bonds.

Each of the Cities is obligated to pay its proportionate share (in an amount equal to 50%) of each Annual Payment, determined on a several and not a joint basis. (See "CERTAIN PROVISIONS OF THE RESOLUTION" attached hereto as APPENDIX F.) The Annual Payments consist of payments (including the Bond Payments, Operation and Maintenance Expenses, and Overhead Expenses) made by each City pursuant to the Contract which payments are secured by and payable from the receipts and revenues derived from each City's combined utility system (the "Cities' Systems"). For information regarding rates, usage and customers of the Cities' Systems, see tables included in APPENDIX B, C and D, as appropriate, to this Official Statement.

Upon receipt by the Corporation, the Bond Payment portion of the Annual Payments, in the amount necessary to satisfy the scheduled principal and interest payment requirements on and any debt service reserve fund and Renewal and Replacement Fund payment obligations applicable to any Priority Bonds outstanding (in the manner and in the amounts specified in the Priority Resolutions), is deposited into the bond fund established and maintained for the benefit of the Priority Bonds, with amounts thereafter remaining being deposited to the Bond Fund established and maintained for the benefit of the New Series Bonds. The Operation and Maintenance Expense and the Overhead Expenses portions of the Annual Payments are deposited, together with

other Gross Revenues of the System, if any, into the System Fund to pay, in the following order of priority, (i) Maintenance and Operating Expenses of the System (such Gross Revenues after satisfying this payment obligation, the “Net Revenues”), (ii) Additional Obligations, if any, and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Additional Obligations, (iii) the Priority Bonds, and (iv) the New Series Bonds and any Additional New Series Bonds. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the Corporation (no mortgage on any real property of the Corporation or the Cities, including the System or the Cities’ Systems is granted), and the registered owner of a Bond shall never have the right to demand payment of the Bonds from any funds raised or to be raised by taxation or from any other sources or properties of the Corporation, the Cities or the State of Texas. The Bonds are not payable from or secured by any other revenues of the Corporation, the Cities or any other entity, and the Corporation is not authorized to levy any tax in payment thereof.

### **Reserve Fund**

Though it has retained the right to establish a debt service reserve fund in conjunction with the future issuance of a series of Additional New Series Bonds, no debt service reserve fund has been established with respect to the Bonds.

### **Rate Covenant**

Pursuant to the Contract, each City is required to pay its proportionate share of the Annual Payments at least equal to the amount required (a) to pay for all Operation and Maintenance Expenses; (b) to pay Overhead Expenses; and (c) to establish and maintain the debt service and the debt service reserve funds for the Priority Bonds and the Renewal and Replacement Fund requirements contained in the Priority Resolutions and the Bond Fund for the New Series Bonds.

In addition, in the Resolution the Corporation agrees, at all times while any of the New Series Bonds are outstanding and unpaid, to establish and maintain rates and collect charges for the facilities and services afforded by the System, which will provide revenues annually at least equal to the amount required to produce Gross Revenues in each fiscal year sufficient (i) to pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System; (ii) to produce Net Revenues, together with any other lawfully available funds, sufficient to pay Additional Obligations, if any, and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Additional Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior lien on and pledge of the Net Revenues of the System; and (iii) to produce Net Revenues, together with any other lawfully available funds, including the Bond Payment portion of the Annual Payments, to pay the principal of and interest on the Priority Bonds, the currently outstanding New Series Bonds, and the Bonds and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of the Priority Bonds and the New Series Bonds, including the Priority Bonds’ debt service reserve fund, and the Renewal and Replacement Fund (at this time, only additionally securing the Priority Bonds).

### **Additional New Series Bonds; Inferior Lien Obligations; Additional Obligations**

The Corporation reserves the right to issue Additional New Series Bonds without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. Additional New Series Bonds, when issued, together with the Bonds and other New Series Bonds at such time outstanding, shall be payable from and secured solely by a junior and inferior lien on and pledge of the Bond Payment portion of the Annual Payments that is immediately subordinate to the lien thereon and pledge thereof securing the repayment of the Priority Bonds until all Priority Bonds are no longer outstanding (at which point in time the junior lien on and pledge of the Bond Payment portion of the Annual Payments securing the repayment of the New Series Bonds will be elevated to a first and prior lien position). In addition to Additional New Series Bonds, the Corporation has reserved the right to issue additional obligations payable from a lien on and pledge of all or part of the Bond Payment portion of the Annual Payments, so long as such lien and pledge is subordinate to the lien thereon and pledge thereof securing the Bonds and any Additional New Series Bonds from time to time issued by the Corporation.

The Corporation has also reserved the right to issue Additional Obligations (defined herein), which are obligations of the Corporation secured by and payable from the Corporation’s Net Revenues (but which specifically exclude the Bond Payment portion of the Annual Payments). The Corporation’s issuance of Additional Obligations is without limitation as to principal amount, but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. “Additional Obligations,” which include Prior Lien Obligations, Junior Lien Obligations, and Inferior Lien Obligations, when issued, shall be secured by a lien on and pledge of the Net Revenues of specified priority. (See “CERTAIN PROVISIONS OF THE RESOLUTION” attached hereto as APPENDIX F.)

### **Redemption Provisions**

#### ***Optional Redemption***

The Corporation reserves the right, at its option, to redeem the Bonds having stated maturities on or after February 1, 2028, in whole or in part, in integral multiples of \$5,000, on February 1, 2027, or any date thereafter, such redemption date or dates to be fixed by the Corporation, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Corporation shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, within each maturity to be redeemed.

### ***Notice of Redemption***

Not less than 30 days prior to a redemption date for the Bonds, the Corporation shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered Owner of a Bond to be redeemed, in whole or in part, at the address of the registered Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. If notice is so given and arrangements are made for the payment of the redemption price of the Bonds on the redemption date, interest on the Bonds shall cease to accrue after the date fixed for redemption whether or not the Bonds have been submitted for payment. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

All notices of redemption shall (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, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall 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, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Resolution, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be Outstanding.

The Paying Agent/Registrar and the Corporation, 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 Resolution 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 owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised or any such notice. Redemption of portions of the Bonds by the Corporation 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 its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the Corporation or the Paying Agent/Registrar. Neither the Corporation nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the 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 "BOOK-ENTRY-ONLY SYSTEM" herein.)

### **Defeasance**

The Resolution provides that any Bond will be deemed paid and will no longer be considered to be outstanding within the meaning of the Resolution when payment of principal of and interest on such Bond to its stated maturity or date of prior redemption has been made or provided for. Payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment and/or (2) Government Securities (defined herein). Any such deposit, with respect to a net defeasance, must be certified by an independent public accountant to be of such maturities and interest payment dates and bear such interest as will, without reinvestment, be sufficient to make the payment to be provided for on the Bond; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds. The Resolution provides that "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (C) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (D) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Corporation officials may contractually limit the use of certain Government Securities as deemed appropriate. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (A) through (C) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the Corporation has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Resolution does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the Corporation 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 Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. 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 Corporation 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 Corporation 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 maturity date, if the Corporation (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 Corporation may amend the Resolution 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 Corporation may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Resolution; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, or the rate of interest thereon, 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 aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

### **Defaults and Remedies**

The Resolution does not establish specific events of default with respect to the Bonds. If the Corporation defaults in the payment of the principal of or interest on any of the Bonds when due or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Resolution, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the Corporation to make such payment or observance and perform such covenant, obligations, or condition. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the Corporation to observe any covenant under the Resolution. Although a registered owner of Bonds could presumably obtain a judgment against the Corporation if a default occurred in the payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the Corporation. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Corporation to establish, maintain, and collect net revenues sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Resolution does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the Corporation to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the Corporation's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the Issuer for breach of the Bonds or the Resolution. Even if a judgment against the Issuer could be obtained, it could not be enforced by direct levy and execution against the Issuer's property. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) ("Wasson") that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the State. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. The Texas Supreme Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. Furthermore, the Corporation 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 Annual Payments or Net Revenues), 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 the creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the Corporation 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 Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors or general principles of equity which permit the exercise of judicial discretion.

## **Perfection of Security Interest for the New Series Bonds**

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the New Series Bonds and the pledge of the Bond Payment portion of the Annual Payments, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the New Series Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Bond Payment portion of the Annual Payments is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the New Series Bonds a security interest in such pledge, the Corporation has agreed in the Resolution to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

## **Ownership of Bonds**

The Corporation, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and interest, and for all other purposes, whether or not such Bond is overdue, and neither the Corporation nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary.

All payments made to the person deemed to be the owner of any Bond in accordance with the Resolution will be valid and effectual and will discharge the liability of the Corporation and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

## **BOOK-ENTRY-ONLY SYSTEM**

This section 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 The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Corporation, 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 Corporation cannot and does 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, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the 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 bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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 Bonds, except in the event that use of the book-entry 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, defaults, and proposed amendments to the Note 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 Paying Agent/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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation 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, 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 Corporation 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 Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation 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 Corporation or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

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

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

#### **Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the 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, payment or notices that are to be given to registered owners under the Resolution will be given only to DTC.

### **REGISTRATION, TRANSFER AND EXCHANGE**

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. In the Resolution, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with

the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds affected by the change by United States mail, first-class, postage prepaid.

### **Future Registration**

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A 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 corporate trust office of the Paying Agent/Registrar or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New 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 (3) 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 shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

### **Record Date for Interest Payment**

The record date ("Record Date") for determining the party to whom the interest on a Bond is payable on any interest payment date means the fifteenth day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar.

### **Limitation on Transfer of Bonds**

Neither the Issuer nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption, in whole or in part (1) to transfer or exchange any Bond during a period beginning at the opening of business fifteen (15) days before the day of the first mailing of a notice of redemption of Bonds hereunder and ending at the close of business on the day of such mailing or (2) thereafter to transfer or exchange in whole or in part any Bond so selected for redemption.

### **Replacement of Bonds**

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

## **BOND INSURANCE**

The Issuer has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy (the "Policy"). The Issuer shall notify the Underwriters upon obtaining a commitment from a bond insurance company (the "Insurer") concerning this matter. The Final Official Statement shall disclose, to the extent necessary, any relevant information relating to this municipal bond insurance policy.

### **BOND INSURANCE GENERAL RISKS**

As described above, the Corporation may purchase a Policy from an Insurer in connection with the issuance of the Bonds. If this occurs, the following general municipal bond insurance policy risk factors will apply.

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the Corporation which is recovered by the Corporation from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the Corporation (unless the Insurer 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"). The Insurer may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the Beneficial Owners. Additionally, the Insurer's consent may be required in connection with amendments to the Resolution. In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the Corporation revenues described in "THE BONDS - Security and Source of Payment". In the event the Insurer 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 on the financial strength of the Insurer and its claims paying ability. The Insurer’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 the Insurer and of the ratings on the Bonds, whether or not subject to the 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 “RATING” herein.)

### **INVESTMENT CONSIDERATIONS**

The Cities’ ability to make payments of the Bond Payment portion of the Annual Payments sufficient to pay principal of and interest on the Priority Bonds and the New Series Bonds when due may be affected by certain risks described below and elsewhere in this Official Statement. Such risks should be considered in making a decision to invest in the Bonds.

#### **Several Not Joint Liability**

The Cities’ pecuniary liability to make the Annual Payments to the Corporation are several and not joint liabilities based upon a 50% / 50% basis as described in the Contract and the Resolution. Accordingly, to the extent that one of the Cities defaults on its proportionate share of the Annual Payments, the Corporation will not have sufficient funds to maintain and operate the System and/or to pay the debt service requirements on the Priority Bonds and the New Series Bonds. The nondefaulting City has no legal obligation to make any payments on behalf of the defaulting City.

#### **Limited Bondholder Remedies**

The Resolution and the Contract provide only limited remedies to Bondholders in the event of default. Neither the Bonds nor the Annual Payments are subject to acceleration upon default. Although the Bondholders could apply for a writ of mandamus to compel the Cities and the Corporation to abide by their contractual obligations, such a remedy is time consuming and may have to be enforced from year to year. No judgment against the Cities or the Corporation may be enforced by execution of a levy against its public purpose property. In addition, the rights and remedies of Bondholders may be limited by applicable federal bankruptcy and receivership laws affecting creditors of political subdivisions. See “THE BONDS – Defaults and Remedies”.

#### **Permitting and Regulatory Matters**

##### *Gonzales County Well Field*

The Corporation holds permits from the Gonzales County Underground Water Conservation District (the “GCUWCD”) to produce water from wells located within Gonzales County, and to transport such water outside of the GCUWCD. The Corporation has obtained such permits for each of its twelve existing wells authorizing a total annual production and transportation of 19,362 acre-feet of water. However, all production permits are subject to periodic review and renewal by the GCUWCD, including the permits issued by the GCUWCD to the Corporation. Pursuant to their terms, the Corporation’s existing permits are subject to renewal as follows:

<u>GONZALES WELL NO.</u>	<u>PRODUCTION</u>	<u>TRANSPORTATION</u>
One	10/9/2019	8/12/2032
Two	10/9/2019	8/12/2032
Three	10/9/2019	8/12/2032
Four	10/9/2019	8/12/2032
Five	10/9/2019	8/12/2032
Six	10/9/2019	8/12/2032
Seven	4/8/2019	7/15/2034
Eight	4/8/2019	4/15/2034
Nine	3/15/2020	3/15/2040
Ten	3/15/2020	3/15/2040
Eleven	3/15/2020	3/15/2040
Twelve	3/15/2020	3/15/2040

The Corporation believes that State law requires that the production permits, not just the transportation permits, have a term of thirty years; however, as noted in the preceding paragraph (and pursuant to the GCUWCD’s current rules), the Corporation’s permits are subject to renewal every five years. In considering an application for renewal of a permit, the Corporation may be subjected to the imposition of additional limitations, including limitations on the amount of water that may be transferred under a permit, and conditions that may be difficult or expensive to satisfy. The rules of the GCUWCD also provide that the GCUWCD may revise or revoke a well production permit at any time if the GCUWCD finds that the well is causing unreasonable effects on existing groundwater and surface water resources or existing permit holders. In an effort to reduce the risk of adverse impacts upon existing permit holders, the Corporation has entered into an agreement with the GCUWCD that establishes a “mitigation fund” funded by the Corporation and other persons who hold permits to transport water out of the GCUWCD from which the GCUWCD will mitigate adverse impacts upon wells located in western Gonzales County and used for domestic and irrigation purposes.

The GCUWCD requires the Corporation to show the GCUWCD that the Corporation owns fee simple title, or has leased for groundwater production, contiguous tracts of land totaling 19,362 acres. The Corporation has filed the required application to renew its production permits. The Corporation has acquired by purchase or lease contiguous tracts totaling approximately 19,422.922 acres.

#### *Guadalupe County Well Field*

The Corporation has obtained permits from the Guadalupe County Groundwater Water Conservation District (the "GCGCD") authorizing the drilling of five proposed wells located in Guadalupe County. Once the wells are drilled and completed, the Corporation will be eligible for production permits from the GCGCD. Based upon the property currently owned and leased by the Corporation and the existing rules of the GCGCD, the Corporation is eligible for production and transportation permits up to 3,765 acre-feet per year. Once production and transportation permits are obtained, the GCGCD requires periodic renewal.

#### *Well-fields in other groundwater conservation districts*

In addition, to the extent that the Corporation expands its operations to include the acquisition of water rights and the development of wells in other jurisdictions, the Corporation will be subject to the applicable regulatory and permitting procedures of such other jurisdictions. See "PROJECT DESCRIPTION" and "OTHER INFORMATION - Litigation - The Corporation."

### **THE CORPORATION**

The Corporation is governed by a board of directors (the "Board") composed of five members who are appointed by the City Councils of the Cities. The Corporation was formed on December 23, 1998. The Corporation's Articles of Incorporation provide, among other things, that the purposes for which the Corporation is organized are:

1. to aid, assist, and act on behalf of the Cities in acquiring, constructing, leasing, improving, enlarging, extending, repairing, maintaining and operating a water utility system (the "Project") pursuant to the provisions of Tex. Loc. Government Code § 552.001 *et seq.* ("Chapter 552") (previously codified as Chapter 402, Texas Local Government Code) and other applicable laws of the State;
2. to aid, assist and act on behalf of the Cities in accomplishing a governmental purpose of Schertz and Seguin in the provision of water for public use;
3. to engage in activities permitted under the laws of the State, including, but not limited to, Chapter 552 and to own and operate all property, real, personal, or mixed, and conduct such activities as are now or hereafter permitted under the laws of the State, including, but not limited to, Chapter 552 and as are convenient or necessary to the ownership, maintenance, and operation of the Project;
4. to receive, hold, administer, and disburse any money, securities, or other property which may be transferred to Corporation by gift, devise, bequest, or otherwise, for any of the uses or purposes set forth above, and to invest, lend, conserve, use, and disburse such money, securities, or other property, and the income derived therefrom, for the uses and purposes herein specified, in accordance with the judgment and discretion of the board of directors;
5. to purchase, exchange, contract for, lease, rent, and in any and all other ways acquire, take, own, improve, and hold, and to sell, convey, mortgage, lease, rent to others, or otherwise dispose of real estate, improvements in real estate, interests in real estate, and personal property of every kind, character, and description;
6. to borrow money or raise money and to issue notes, bills, bonds and other obligations and to mortgage, pledge, hypothecate, or otherwise encumber any and all of the revenues and assets of the Corporation as security therefor for the purpose of carrying out the goals of the Corporation; and
7. to do any and all things necessary or convenient to the accomplishment of any of the purposes or for the exercise of any of the powers herein set forth, whether herein specified or not, either alone or in connection with other firms, individuals, or corporations, whether in the State or throughout the United States, and elsewhere.

### **SELECTED PROVISIONS OF THE CONTRACT**

Selected provisions of the Contract are reproduced below. This reproduction is not a complete recital of the terms and provisions of the Contract and reference is made to the Contract in its entirety.

#### **Selected Definitions and Interpretations**

The following terms shall have the meanings assigned to them below wherever they are used in the Contract, unless the context clearly requires otherwise:

“Annual Payments” means the amount of money, constituting the Bond Payment, Operation and Maintenance Expenses, and Overhead Expenses, to be paid to the Corporation by each City, on a several and not a joint basis, as described in the Contract, from the revenues of the Cities’ Systems as an operating and maintenance expense of the Cities’ Systems (or any other lawfully available revenues of the Cities), at the times and in the amounts required by Sections 3.05 and 5.02 of the Contract.

“Bond Payment” means the amount of money to be paid to the Corporation by the Cities from the revenues of the Cities’ Systems as an operating and maintenance expense of the Cities’ Systems at the times and in the amounts required by Sections 3.05 and 5.02 of the Contract.

“Bond Resolution” means any resolution and/or trust indenture of the Corporation, authorizing the issuance of and securing the Bonds and all amendments and supplements thereto and including the Approval Certificate, if any, authorized by such resolution to establish certain of the terms of the Bonds authorized by such resolution.

“Bonds” means all bonds, notes, or other obligations hereafter issued by the Corporation, whether in one or more series or issues, to pay the cost of the Project (including any bonds or notes issued to complete the Project) or to refund any Bonds or to refund any such refunding Bonds.

“Cities’ Systems” means and includes each of the City’s existing combined waterworks and wastewater disposal system and any electric power and or natural gas system, together with all future extensions, improvements, enlargements, and additions thereto, including, to the extent permitted by law, storm sewer and drainage and/or reclaimed water systems within the waterworks or wastewater disposal system, and all replacements thereof, provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Cities’ Systems shall not include any waterworks, wastewater, electric power, or natural gas facilities which are declared by the Cities not to be a part of the Cities’ Systems and which are hereafter acquired or constructed by the Cities with the proceeds from the issuance of “Special Facilities Bonds”, which are hereby defined as being special revenue obligations of the Cities which are not secured by or payable from the net revenues of the Cities’ Systems, but which are secured by and are payable solely from special contract revenues, or payments received from the Cities or any other legal entity, or any combination thereof, in connection with such facilities; and such revenues or payments shall not be considered as or constitute gross revenues of the Cities’ Systems, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such “Special Facilities Bonds”.

“Cities Utility Bonds” means the appropriate City’s bonds and notes outstanding from time to time secured by a lien on and pledge of the net revenues of the Cities’ Systems or any part thereof, regardless of lien priority.

“Code” means the Internal Revenue Code of 1986, and any amendments thereto, as in force and effect on the date of delivery of any series of Bonds.

“Credit Agreement” means any bond insurance policy or other credit agreement, as defined in and authorized by the provisions of Chapter 1371, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 717q, as amended), which the Corporation enters into relating to its obligations with respect to the Bonds.

“Facilities” means the facilities, lines, booster pumps, and other appurtenances sufficient to deliver the water to which the Cities are entitled under the Contract and any improvements, additions, or extensions to such Facilities hereafter acquired or constructed to deliver water between such places.

“Land Interests” means the easements, right-of-way, and other interests in real property necessary for the acquisition, construction, and operation of the Facilities and the Water Rights for the Project.

“Operation and Maintenance Expenses” means all direct costs and expenses incurred by the Corporation for its operation and maintenance, including but not limited to, the operation and maintenance of the Project, including (for greater certainty but without limiting the generality of the foregoing) amounts payable under any contract with any person, including, but not limited to any federal, state, or local agency for the right to produce and use groundwater or other sources of water, any contribution or payment in lieu of taxes or any fee or charge by any government authority relating to the Corporation’s production of groundwater or sale of treated water hereunder, the costs of utilities, supervision, engineering, accounting, auditing, legal services, insurance premiums, supplies, services, and administration of the Project, Overhead Expenses, and costs of operating, repairing, maintaining, and replacing equipment for proper operation and maintenance of the Project. The term “Operation and Maintenance Expenses” does not include depreciation charges or such portion of the above-described costs to the extent such costs are paid pursuant to an agreement other than the Contract.

“Overhead Expenses” means the Corporation’s reasonable and necessary costs and expenses incurred at any time directly related to the issuance and servicing of the Bonds, the acquisition of Land Interests required for the Project, the design, permitting, financing, acquisition, construction, and ownership of the Project and any other activities required of or involving the Corporation in connection with or attributable to the Project or the Bonds, including, but not limited to: (a) per diem and reimbursable expenses incurred by the Directors of the Corporation for special meetings of the Corporation’s Board of Directors related to the Project; (b) services of the professional, technical skilled and unskilled persons and firms engaged by or associated with the Corporation, other than Corporation staff personnel, together with their reimbursable expenses paid or required to be paid by the Corporation; (c) salaries of the Corporation’s staff attributable to the Project or the Bonds based on time expended, as documented or reasonably estimated by the President, Board of Directors of the Corporation; (d) the costs of preparing applications for and obtaining all approvals and authorizations required for the Project or the Bonds from the regulatory authorities

having jurisdiction; (e) the cost of property casualty and public liability insurance incurred prior to the Completion Date; including any insurance deductible charged to or required to be paid by the Corporation; provided that if the Corporation is unable to obtain such insurance on an occurrence basis, then any expense incurred by the Corporation from and after the Completion Date for casualty and public liability insurance, including any insurance deductible, shall be paid by the Cities; (f) all costs incurred in litigation involving or relating to the Project; and (g) any and all other costs and expenses, including out-of-pocket expenses, incurred by the Corporation attributable to the Project or the Bonds, whether enumerated above or not, and whether or not included in the definition or as a part of Project Costs.

“Project Costs” means and includes, without limitation, the following costs incurred for the Project by or on behalf of the Corporation or the Cities: (a) the cost of acquisition of the Land Interests, including appraisals, closing costs and title insurance policies; (b) the cost of acquisition, construction, repair, replacement, or improvement of the Facilities, and any structure, item of equipment, or other item, used for, or in connection with, the Project; (c) the cost of site preparation of the Land Interests, including demolition or removal of structures and improvements as necessary or incident to accomplishing the Project; (d) the cost of engineering, legal, architectural or other related services; (e) the preparation cost of plans, specifications, studies, surveys, cost estimates, and other expenses necessary or incident to planning, providing, or financing the Project; (f) the cost of machinery, equipment, furnishings, and facilities necessary or incident to placing the Project in operation; (g) finance charges and interest before, during, and after construction as permitted by the laws of the State; (h) costs incurred in connection with financing the project, including, without limitation: (1) financing, legal, accounting, financial advisory, rating agency, and auditing fees, expenses and disbursements; (2) the cost of printing, engraving, and reproduction services; and (3) the cost of a trustee’s or paying agent’s initial or acceptance fee and subsequent fees; (i) all costs, fees and expenses of litigation of all kinds; (j) the cost of property casualty and public liability insurance; (k) the fees and costs of the underwriters as the anticipated purchasers of the Bonds; (l) reimbursement of the costs previously incurred by the Cities with respect to the Project; and (m) other costs generally recognized as a part of Project construction costs.

“State” means the State of Texas.

“Trustee” means any trustee named under a trust indenture or the paying agent/registrant named in a paying agent/registrant agreement entered into by the Corporation securing the payment of the Bonds and authorized by a Bond Resolution.

“TWDB” means the Texas Water Development Board or any successor entity thereto.

“Water Rights” means the right to drill and operate wells, produce groundwater, and transport the groundwater from the county where the groundwater is produced into Guadalupe County and the surrounding counties.

### **Acquisition and Construction of the Project**

The initial phase of the Project was completed and operational on February 20, 2003. The initial phase of the project was subsequently expanded by the addition of water wells and related improvements, and acquisition of land and water leases for such wells with contributions in aid of construction from the City of Selma and City of Universal City in accordance with the water supply contracts between the Corporation and these two cities.

Quantity. The Cities’ proportionate share of the treated groundwater produced by the Project is as follows: Schertz 50%; Seguin 50%.

Other Contracts. The Corporation shall not enter into contracts with other persons for the supply of water without the prior consent of the Cities and either City may withhold its consent. The Cities may not resell water to third party wholesalers (except to such customers that exist on November 1, 1999 and not for resale by these customers) that they purchase from the Corporation without obtaining the written consent of the Corporation and the other City. The Corporation has, with the consent of both Cities, entered into wholesale water contracts with the City of Selma, the City of Universal City, the City of Converse, the San Antonio Water System, and the Springs Hill Water Supply Corporation.

### **Financing of the Project**

#### Issuance of Bonds.

- (a) The Corporation’s acquisition and construction of the Project and improvements to the Project were initially financed by the Corporation through the issuance of the Priority Bonds payable from and secured, in part, by an assignment of the Annual Payments made under the Contract. In consideration of the covenants and agreements set forth in the Contract, and to enable the Corporation to issue its bonds (“Corporation Bonds”) to carry out the intents and purposes hereof, the Contract is executed to assure the issuance of the Corporation Bonds and to provide for and guarantee the due and punctual payment by the Cities to the Corporation, or to the Trustee under the trust indenture (or paying agent/registrant agreement) securing the Corporation Bonds, of amounts not less than the Annual Payments. Each of the Cities hereby agrees to make, or cause to be made, its proportionate share of each Annual Payment, as and when due, for the benefit of the owners of the Corporation Bonds, as provided in the Corporation Bonds and the Bond Resolution. The proportionate share of each Annual Payment shall be determined on a several and not a joint basis, as follows: Schertz 50% and Seguin 50%.

- (b) The proceeds from the sale of the Priority Bonds were used for the payment of the Project Costs.
- (c)
  - (1) Each Bond Resolution of the Corporation shall specify the maximum principal amount of the Corporation Bonds to be issued thereunder. The Corporation Bonds shall mature not more than forty (40) years from the date of such Corporation Bonds and shall bear interest at not to exceed the maximum legal rate then permitted by law, and the Bond Resolution may create and provide for the maintenance of a revenue fund, an interest and sinking fund, a debt service reserve fund, and any other funds deemed prudent by the Corporation, all in the manner and amounts as provided in such Bond Resolution.
  - (2) Prior to the final adoption of a Bond Resolution or any amendment of a Bond Resolution by the Corporation's Board of Directors or the execution of an Approval Certificate by the Corporation, a substantially final copy of the proposed Bond Resolution, the Approval Certificate, if any, and the Sale and Offering Documents shall be presented to the Cities for review and approval.
  - (3) Upon approval by each of the Cities of (i) each Bond Resolution hereafter adopted by the Corporation, (ii) any amendments to any Bond Resolution, (iii) an Approval Certificate authorized by a Bond Resolution, and (iv) the Sale and Offering Documents and the delivery to the Corporation of a certification signed by the Authorized Representative of each of the Cities to the effect that the Bond Resolution, including any Approval Certificate, and the Sale and Offering Documents comply with the Contract, then upon the adoption and approval of the Bond Resolution and the Approval Certificate, if any, in such final form by the Corporation's Board of Directors or Authorized Representative, as the case may be, and the issuance and delivery of the Bonds to the purchaser thereof, the Bond Resolution shall for all purposes be considered approved by the Cities and deemed to be in compliance with the Contract in all respects, and the Corporation Bonds issued thereunder will constitute Bonds as defined in the Contract for all purposes. Any owner of Corporation Bonds is entitled to rely fully and unconditionally on any such approval.
  - (4) All covenants and provisions in the Bond Resolution affecting, or purporting to bind, the Cities, shall, upon the delivery of the Corporation Bonds, become absolute, unconditional, valid, and binding covenants and obligations of the Cities so long as the Bonds and interest thereon are outstanding and unpaid, and may be enforced as provided in the Contract and the Bond Resolution. Particularly, the obligation of each of the Cities to make, promptly when due, all Annual Payments specified in the Contract shall be absolute and unconditional, and said obligation may be enforced as provided in the Contract. In addition, subject to the approval of the Cities, the Corporation may enter into Credit Agreements for the purpose of achieving the lowest financing costs for the Project.

Proceeds of Corporation Bonds. Subject to the terms and provisions of the Contract, the proceeds of the Corporation Bonds shall be used by the Corporation for the purpose of financing and funding the Corporation's acquisition and construction of the Project and improvements to the Project. The Corporation shall use its best efforts to issue its Corporation Bonds, in one or more series, in amounts which will be sufficient to accomplish such purpose. A trust indenture may be entered into between the Corporation and a corporate trustee for the purpose of securing the payment of the Bonds. The trust indenture or the Bond Resolution, as appropriate, will establish procedures for the payment of Project Costs out of the construction fund. It is anticipated that the Bonds will be issued pursuant to the Bond Resolution and that a paying agent/registrars agreement will be executed between the Corporation and the Trustee concerning the payment procedures with respect to the Bonds.

Refunding of Bonds. The Corporation reserves the right to issue refunding bonds in accordance with the laws of the State.

Redemption of Bonds. The Corporation, in its sole discretion or upon the written request of the Cities (and provided that the affected Corporation Bonds are subject to redemption or prepayment prior to maturity at the option of the Corporation, and provided that such request is received in sufficient time prior to the date upon which such redemption or prepayment is proposed), forthwith shall take or cause to be taken all action that may be necessary under the applicable redemption provisions of the Corporation Bonds to redeem the Corporation Bonds or any part thereof, to the full extent of funds are either made available for such purpose by the Cities or already on deposit under the Bond Resolution and available for such purpose. The redemption of any outstanding Bonds prior to maturity at any time shall not relieve the Cities of their absolute and unconditional obligation to pay each remaining Annual Payment with respect to any outstanding Corporation Bonds, as specified in the Bond Resolution.

Debt Service on Bonds and Other Bond Funding Requirements. It is acknowledged and agreed that payments to be made under the Contract will be the primary source available to the Corporation to provide the money necessary for the Corporation to meet its obligations with respect to the Corporation Bonds and any Credit Agreements. Each City therefore agrees to pay its proportionate share of all Bond Payments, as outlined in subsections (a) through (c) below, in full when due as provided in the Contract. Bond Payments shall be due by the close of business on the business day prior to each date on which any of the following payments or deposits shall be due and shall be in an amount equal to all such payments and deposits due on such date:

- (a) debt service on the Corporation Bonds and related payments and deposits, as follows:
  - (1) principal of, redemption premium, if any, and interest on, the Corporation Bonds, less interest to be paid out of Corporation Bond proceeds or from other sources if permitted by any Bond Resolution, and the redemption price of any Bonds to be redeemed prior to maturity when and as provided in any Bond Resolution

plus the fees, expenses, and, to the extent permitted by law, indemnities of the Trustee, if any, for the Corporation Bonds and those of the paying agent/registrars for paying the principal of and interest on the Corporation Bonds and for authenticating, registering, and transferring Corporation Bonds on the registration books; and

(2) deposits required to be made to any special, contingency, or reserve fund by the provisions of any Bond Resolution; and

(3) any deposit in addition thereto required to restore any deficiency in any of such funds by the provisions of any Bond Resolution,

(b) amounts payable by the Corporation under a Credit Agreement; and

(c) the fees, expenses, and indemnities (to the extent permitted by law) of the remarketing agent, rate setting agent, authentication agent, arbitrage rebate compliance firm, and tender agent, if any, for the Corporation Bonds.

*Billing.* The Corporation will render bills to the Cities not more than once each month for the current payments required by the Contract. The Corporation shall, until further notice, render such bills on or before the 5th day of each month and such bills, commencing on April 5, 2000, shall be due and payable on the 15th day of each month or ten (10) days after such bill is deposited into the United States mail, properly stamped and addressed to the Cities whichever is later and thereafter, to the extent permitted by law, interest shall accrue thereon at the rate of ten per cent (10%) per annum until paid in full. The Corporation may, however, from time to time by sixty (60) days' written notice change the date by which it shall render bills, and all bills shall thereafter be due and payable ten (10) days after such dates as herein provided. The Cities shall make all payments in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts and shall make payment to the Corporation at its office in Guadalupe County, Texas or at such other place as the Corporation may from time to time designate by sixty (60) days' written notice.

*Delinquency in Payment.* If either of the Cities fails to pay any bills when due and payable, the Corporation may give written notice of such delinquency to the City and if all bills due and unpaid, including interest thereon, are not paid within forty-five (45) days after delivery of such notice, then the City agrees that the Corporation shall be authorized, as its option, to institute suit for collection thereof and to collect any amounts due and unpaid, together with interest thereon and reasonable attorneys' fees, and the City further agrees that the Corporation may, as its option discontinue providing water to the City until all amounts due and unpaid are paid in full with interest as herein specified. Any such discontinuation of service shall not, however, relieve the City of its unconditional obligations to make the payments required by the Contract. It is also hereby expressly recognized that the nondefaulting City shall have no obligation to make any payments for the benefit of the defaulting City.

*Corporation's Rights Assigned to Trustee.* The Cities are advised and recognize that as security for the payment of the Bonds, the Corporation may assign to the Trustee, pursuant to one or more trust indentures (or paying agent/registrars agreements) to be authorized by the Bond Resolution, the Corporation's rights under the Contract, including the right to receive the Annual Payments hereunder (but not the right to receive indemnification payments, if any, pursuant to the Contract). The Cities herewith assent to such assignment and will make the Annual Payments directly to the Trustee without defense or set-off by reason of any dispute between one or both of the Cities and the Corporation or the Trustee. All rights against the Cities arising under the Contract or the Bond Resolution and assigned to the Trustee may be enforced by the Trustee, or the owners of the Corporation Bonds, to the extent provided in the Bond Resolution, and the Trustee, or the owners of the Corporation Bonds, shall be entitled to bring any suit, action, or proceeding against the Cities, to the extent provided in the Bond Resolution, for the enforcement of the Contract, and it shall not be necessary in any such suit, action, or proceeding to make the Corporation a party thereto.

*Tax-Exempt Bonds.* The parties hereto understand and agree that the Corporation will use its best efforts to provide for, but will not be liable for a failure to produce, the lowest overall debt service cost for the Corporation Bonds to be issued for the Project. In connection therewith, the parties intend that the Corporation will issue Corporation Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes. The parties hereto acknowledge their understanding that the federal income tax laws impose certain restrictions on the use and investment of proceeds of such tax-exempt bonds and on the use of the property financed therewith and the output produced therefrom. Accordingly, the parties agree and covenant that if the Corporation Bonds are offered to investors with the understanding that the interest will be exempt from federal income taxation, then the parties, their assigns and agents, will take such action to assure, and refrain from such action which will adversely affect the treatment of such Corporation Bonds as obligations described in section 103 of the Code. Should any party fail to comply with such covenant, the effect of which being that the Bonds no longer qualify as obligations described in the Code, such defaulting party shall be liable for all costs resulting from the loss of the tax-exempt status of the Corporation Bonds. The parties hereby agree and covenant to comply with all of the representations and covenants relating to such exemption which are set out in any Bond Resolution. The parties further agree and covenant that in the event the Corporation Bonds issued are to be tax-exempt, they will modify such agreements, make such filings, restrict the yield on investments, and take such other action necessary to fulfill the applicable provisions of the Code. For these purposes, the parties may rely on the respective opinion of any firm of nationally-recognized bond attorneys selected by them. In the event that a conflict arises in the opinions of the respective firms of each of the parties, the parties will identify a different firm, that is mutually acceptable to all parties, in order to resolve the conflict of opinion.

*Payment to Rebate Fund.* In the event that tax-exempt Corporation Bonds are issued as provided in the preceding paragraph, the Corporation hereby covenants and agrees to make the determinations and to pay any deficiency into a rebate fund, at the times and

as described in the Bond Resolution to comply with the provisions of section 148(f)(2) of the Code. In any event, if the amount of cash held in the rebate fund shall be insufficient to permit the Trustee to make payment to the United States of America of any amount due on any date under section 148(f)(2) of the Code, each of the Cities forthwith shall pay the amount of such insufficiency on such date to the Trustee in immediately available funds for such purpose. The obligations of the Cities under this Section are direct obligations of each City, acting under the authorization of, and on behalf of, the Corporation and the Corporation shall have no further obligation or duty with respect to the rebate fund.

Cities' Obligations. In the event the Project is not completed for any of the reasons contemplated herein or otherwise, or any proceeds from issuance of the Corporation Bonds are not used for completion of the Project for any reason, any Corporation Bonds proceeds and earnings thereon not used for completion of the Project shall be utilized to satisfy amounts due and owing on the Corporation Bonds as described in the Bond Resolution, and herein, so as to reduce the Annual Payments which would otherwise be due hereunder, or be applied for the benefit of the Cities as provided in the Bond Resolution. The Cities have covenanted absolutely and unconditionally, in accordance with all other terms of the Contract, to make the Annual Payments, as provided herein, in consideration for such application of the money as well as the other covenants and obligations of the Corporation and others set forth or contemplated herein.

Interest on Money. All legally available money respecting the Corporation Bonds shall be invested in the manner set forth in the Bond Resolution. Any interest earnings on the Corporation Bond proceeds may be used to pay principal of and interest on the Corporation Bonds or for the payment of any Project Costs or other costs related to the Project approved by the Cities, subject to restrictions relating to the tax-exempt status of Corporation Bonds.

Right of Cities to Prepay. The Cities shall have the right at any time to prepay all or any portion of the Annual Payments. Subject to restrictions relating to the tax-exempt status of Bonds, such prepaid Annual Payments shall be used and invested by the Corporation as directed by the City which paid (i) as a credit against future Annual Payment obligations of such City, (ii) to redeem Bonds pursuant to the provisions of the Contract, or (iii) to provide for the defeasance of the Bonds pursuant to the provisions of the Bond Resolution. Any such prepayment will not cause a termination of the Contract until all other amounts owed or to be incurred by the Corporation or any other person under the provisions of the Bond Resolution have been paid in full or waived by such person.

#### **Annual Payments, City Covenants**

##### Annual Payments by the Cities.

(a) Each of the Cities hereby agrees that it will make payments of its proportionate share of the Annual Payments to the Corporation, or to the Trustee on behalf of the Corporation, as provided in the Bond Resolution in accordance with the procedures established in the Contract. If a City at any time disputes the amount to be paid by it to the Corporation, such City shall nevertheless promptly make such payment or payments, but if it is subsequently determined by agreement or court decision that such disputed payments made by such City should have been less, or more, the Corporation shall promptly revise the charges for such City in such manner that a City will recover its overpayment or the Corporation will recover the amount due it. The Corporation shall pursue all legal remedies against the Cities to enforce and protect the rights of the Corporation and the owners of the Bonds, and the Cities shall not be relieved of the liability to the Corporation for the payment of all amounts which are due by them hereunder.

(b) Except to the extent otherwise provided by the Resolution, all amounts due under the Contract shall be paid and are due in Guadalupe County, Texas, which is the County in which the principal administrative offices of the Corporation are located.

(c) The Corporation shall redetermine the estimate and schedule of Annual Payments due in any Fiscal Year at any time during such Fiscal Year, as and to the extent deemed necessary or advisable by the Corporation to accurately forecast the amount and date of Annual Payments to be made by the Cities, if (i) the Corporation issues Corporation Bonds to complete the Project or to refund any Bonds or enters into, amends, or terminates a Credit Agreement, (ii) actual interest rates on any variable interest rate Corporation Bonds differ from those projected by the Corporation, or (iii) any other event occurs which results in an increase or decrease in the Annual Payments required to be made by the Cities in such Fiscal Year.

(d) If, during any Fiscal Year, the Annual Payment is redetermined in any manner as provided or required in this Section, the Corporation will promptly furnish the Cities with an updated schedule of payments reflecting such redetermination.

(e) Notwithstanding anything herein to the contrary, no failure of the Corporation to estimate, and no mistake by the Corporation in any estimate of, the amount of or schedule for Annual Payments due from the Cities in any Fiscal Year shall relieve the Cities from (or defer) their absolute and unconditional obligation to make all Annual Payments in full when due.

##### Source of Payment.

(a) Each of the Cities represents and covenants that all payments to be made by them under the Contract shall constitute reasonable and necessary "operating expenses", as defined in Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 1113, as amended), of the Cities' Systems, but only to the extent of the Annual Payment, and the Cities shall not be obligated to make the payments under the Contract from any source other than the

gross revenues of the Cities' Systems. Each of the Cities further represents that the Governing Bodies of the Cities have determined that the services to be provided by the Project are absolutely necessary and essential to provide the water to the Cities.

(b) Each of the Cities agrees throughout the term of the Contract to fix and collect such rates and charges for services to be supplied by the Cities' Systems as will produce gross revenues at all times during the term of the Contract in an amount at least equal to (i) all of the expenses of operation and maintenance of the Cities' Systems, including specifically their payments under the Contract and (ii) all other amounts as required by law and the provisions of the ordinances or resolutions authorizing the Cities Utility Bonds or other obligations now or hereafter outstanding payable, in whole or in part, from the net revenues of the Cities' Systems, including the amounts required to pay all principal of and interest on such Cities Utility Bonds and other obligations.

(c) No ad valorem tax revenues of either of the Cities shall be pledged to the payment of any amounts to be paid by the Cities to the Corporation under the Contract, nor shall the Corporation have the right to demand payment of any amounts to be paid by the Cities under the Contract be paid from funds raised or to be raised from ad valorem taxation from the Cities and the obligations under the Contract shall never be construed to be a debt or pecuniary obligation of the Cities of such kind as to require the Cities to levy and collect an ad valorem tax to discharge their obligations.

Corporation's Operation and Maintenance Expenses and Overhead Expenses. To the extent not paid out of the proceeds of the Bonds, or otherwise, the Cities shall pay and reimburse the Corporation for all of its proportionate share of Operation and Maintenance Expenses and Overhead Expenses incurred by it throughout the term of the Contract within thirty (30) days of receipt of documentation therefor from the Corporation. The Cities also agree, with the consent of the Corporation, to enter into an interlocal agreement to provide for, among other matters, an annual adjustment of the Operation and Maintenance Expenses and Overhead Expenses paid by each City based upon certain formulas and taking into account the quantity of water actually utilized by each City.

Annual Budgeting by the Cities. The Cities shall make provision in each of their annual budget and shall appropriate an amount sufficient, at a minimum, for the payment of all amounts required to be paid by the Cities under the Contract.

Revenue Sources Pledged. Each of the Cities hereby pledge the gross revenues of the Cities' Systems to the payment of their obligations under the Contract and recognize that the Corporation will, and authorize the Corporation to, pledge the Annual Payments owing to it by the Cities under the Contract to the payment of the Corporation Bonds and Credit Agreements. The Corporation agrees to make the payments for the Corporation Bonds and Credit Agreements when and as required by the Bond Resolution, the Credit Agreements, and the Contract, from and to the extent of proceeds of the Corporation Bonds not expended for the Project and Annual Payments made by the Cities.

## **General Provisions**

Force Majeure. If by reason of Force Majeure any party hereto shall be rendered unable wholly or in part to carry out its obligations under the Contract, other than the obligation of the Cities to make the payments required under Sections 3.05, and 5.02 of the Contract, then if such party shall give notice and full particulars of such Force Majeure in writing to the other party within a reasonable time after the occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, blue northers, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, inability on the part of the Corporation to deliver water for any reason, or on account of any other causes not reasonably within the control of the party claiming such inability.

Unconditional Obligation to Make Payment. Recognizing the fact that the Cities urgently require the facilities and services of the Project, and that such facilities and services are essential and necessary for actual use and for standby purposes, and recognizing the fact that the Annual Payments to be received from each of the Cities will be the primary source of funds available to the Corporation and the Trustee to pay the Corporation Bonds, and recognizing the fact that purchasers of Bonds will rely on the obligation of the Cities to make Annual Payments in accordance with the provisions of the Contract, each of the Cities hereby waives all rights of set-off, recoupment, counterclaim, suspension, deferment, reduction, and amendment, with respect to making the Annual Payments against the Corporation, the Trustee, and any other direct or indirect recipients of Annual Payments, and the Cities agree that, if the Corporation Bonds are issued, they shall be unconditionally obligated to pay the Annual Payments as provided and determined by the Contract, regardless of whether or not the Corporation actually acquires, constructs, or completes the Project or breaches any obligation on its part hereunder, and whether or not the Cities actually use the Project, whether due to Force Majeure or any other reason whatsoever, regardless of any other provisions of the Contract, any other contract or agreement between any of the parties hereto. This covenant by each of the Cities shall be for the benefit of and enforceable by the owners of the Corporation Bonds and/or by the Corporation.

By entering into the Contract and performing its obligations under any Section of the Contract, the Cities do not release any persons from or waive any claims against such persons that the Cities may have resulting from actions by such persons contrary to that person's legal obligations.



Term of Contract. The Contract shall be effective from and after its date, and the Contract shall continue in force and effect until the principal of and interest on all Bonds shall have been paid or provision for the payment of all of the Bonds has been made in accordance with the terms of the Bond Resolution and thereafter continue in force and effect during the entire useful life of the Project. When the principal of and interest on all Bonds shall have been paid or provision for the payment of all of the Corporation Bonds has been made in accordance with the terms of the Bond Resolution and all amounts owed to the Corporation, the Trustee, or any other person hereunder have been paid, all money held by the Trustee or the Corporation pursuant to the terms of the Bond Resolution shall be paid to the Corporation. Upon the termination of the Contract, the Corporation will charge each of the Cities a per gallonage charge (or other published rate) for water delivered to the Cities in accordance with the Corporation's then existing rate schedule.

Modification. No change, amendment, or modification of the Contract shall be made or be effective which will affect adversely the prompt payment when due of all money required to be paid by the Cities under the terms of the Contract and no such change, amendment, or modification shall be made or be effective which would cause a violation of any provisions of any Bond Resolution.

Remedies Upon Default. It is not intended hereby to specify (and the Contract shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies (other than termination) existing at law or in equity may be availed of by either party hereto and shall be cumulative. Recognizing that failure in the performance of the Cities' obligations hereunder could not be adequately compensated in money damages alone, each of the Cities agrees in the event of any default on its part that the Corporation and the owners of the Bonds as third-party beneficiaries shall have available to them the remedies of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available to them. Notwithstanding anything to the contrary contained in the Contract, any right or remedy or any default hereunder, except the right of the Corporation to receive the Annual Payments and the provision of Section 3.09 hereof, which shall never be determined to be waived, shall be deemed to be conclusively waived unless asserted by a proper proceeding at law or in equity within two (2) years plus one (1) day after the occurrence of such default. No waiver or waivers of any breach or default (or any breaches or defaults) by any party hereto or of the performance by any other party of any duty or obligation hereunder shall be deemed a waiver thereof in the future, nor shall any such waiver or waivers be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character or description, under any circumstances.

Succession and Assignment. This Contract is binding on and inures to the benefit of the parties hereto and their respective successors, representatives, and assigns. This Contract may not be assigned by either party hereto without (i) complying with any provisions relating to the right of the parties to assign the Contract contained in the Bond Resolution and (ii) prior written notice to and approval by the other party, which consent may be withheld without cause. The provisions of this Section do not affect the assignment of the Corporation's rights under the Contract to the Trustee.

Independent Contractor. As among the parties, the Corporation shall be solely responsible for the operation of the Project to produce and treat groundwater and to transport water to the Cities pursuant to the Contract (except to the extent the Corporation and the Cities enter into agreements for the Cities to operate parts of the Project); and the Corporation shall be an independent contractor in the operation of the Project.

## **PROJECT DESCRIPTION**

The Corporation was created by the Cities to develop and operate a wholesale water supply system for the benefit and well-being of the City of Seguin, Texas ("Seguin") and the City of Schertz, Texas ("Schertz"), which are the two major population centers in Guadalupe County, Texas. The Corporation financed the construction of a well-field and cross-country pipeline (such improvements, the "Project") with bonds that are secured by contracts with the Cities. (See "THE BONDS - Security and Source of Payment.")

Construction of the cross-country pipeline, treatment facilities, pumping stations, water storage and gathering lines from the well-field is complete and water is being supplied to the Cities according to plan without exceeding the Project budget and without construction delays. The Corporation holds sufficient acreage in Gonzales County to support the existing water production levels under local and state regulations and, subject to periodic review and renewal (as described herein), pursuant to permits obtained by the Corporation. Additional acreage has been acquired since the completion of construction to support expansion in the well-field.

Initially, six wells were drilled and completed in Gonzales County to produce the 9,700 acre-feet of water per year at a maximum instantaneous rate of 10.4 million gallons per day. This production capacity was designed for the current needs of the Cities. After completion of the construction and with the written consent of the Cities, the Corporation contracted to sell water to the City of Selma, the City of Universal City, and Springs Hill Water Supply Corporation in 2004. The Corporation obtained the necessary permits and drilled two additional wells in Gonzales County to enable the Corporation to supply the new customers and maintain safe operational abilities. With the addition of the two new wells, the Corporation increased the permitted production to 12,910 acre feet of water per year. In 2010 the Corporation completed the addition of four wells and, with the written consent of the Cities, contracted to sell water to the City of Converse and the San Antonio Water System ("SAWS"). An expansion of the Corporation's treatment, storage and transmission system is being completed as part of the contract with SAWS. The Corporation is currently operating twelve wells, a water treatment plant and transmission facilities with operations personnel provided by the City of Seguin and the City of Schertz on a contractual basis.

The Corporation holds permits issued by the GCUWCD to produce water from twelve wells up to an annual combined total of 19,362 acre feet and to export the water outside of Gonzales County. The existing permits issued by the GCUWCD specify

renewal dates for the existing permits beginning in April 2019 through March 2020, but Texas law appears to require the GCUWCD to issue its transportation permits for thirty years.

The Corporation is delivering water to the Cities at a rate that is very competitive when compared to other wholesale water rates in the area, and increases in production are expected to continue over time as demand warrants.

The Corporation has revised its rate structure to authorize impact fees. The Corporation followed the procedure mandated by Texas law to adopt impact fees. The purpose of this fee is to obtain customer contributions toward construction of capital projects and to provide additional funds to be used to pay debt service on the Corporation Bonds.

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP of San Antonio, Texas, 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 described herein, 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 G 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 ("FASIT"). The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

In rendering the foregoing opinions, Bond Counsel will rely upon the Financial Advisor's certification concerning the sufficiency of funds initially deposited to the Escrow Fund and the representations and certifications of the Corporation made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the Corporation with the provisions of the Resolution subsequent to the issuance of the Bonds. The Resolution contains covenants by the Corporation with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the 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 Corporation 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 Corporation 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 Corporation 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 accrued interest may be required to be taken into account in determining 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, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a 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.

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.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Resolution and in the Contract, the Corporation and the Cities (collectively, the “Obligated Parties”), respectively, have made the following agreements for the benefit of the holders and beneficial owners of the Bonds. The Obligated Parties are required to observe the agreements for so long as they remain obligated to advance funds to pay the Bonds. Under the agreements, the Obligated Parties will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (“MSRB”). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access (“EMMA”) system through an internet website accessible at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The Obligated Parties will provide certain updated financial information and operating data to the MSRB. The information to be updated includes the quantitative financial information and operating data with respect to the Obligated Parties of the general type included in this Official Statement in Appendices A, B, C, D and E. The Obligated Parties will update and provide this information within six months after the end of each fiscal year.

The Obligated Parties may provide 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 Obligated Parties commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Obligated Parties will provide unaudited financial statements by the required time and will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX E or such other accounting principles as the Obligated Parties may be required to employ from time to time pursuant to state law or regulation.

Each of the Obligated Parties' current fiscal years end are September 30. Accordingly, they must provide updated information by the last day of March in each year, unless any of the Obligated Parties change their fiscal year. If any of the Obligated Parties change their fiscal year, the appropriate Obligated Party will file notice of the change with the MSRB.

### **Material Event Notices**

The Corporation will file with the MSRB notice of any of the following events with respect to the Bonds 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 Registered Owners of the Bonds, if material; (8) Bond 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 Corporation, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Corporation 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/Registrar or the change of name of a Paying Agent/Registrar, if material. Neither the Bonds nor the Resolution make any provision for credit enhancement (although the Corporation has sought bids from bond insurance companies), or liquidity enhancement, or debt service reserves for the Bonds. In addition, the Corporation will provide timely notice of any failure by the Corporation to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Corporation will file each notice described in this paragraph with 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 Corporation 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 Corporation, 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 Corporation.

### **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 Obligated Parties 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.

With respect to debt of the Corporation issued prior to the EMMA Effective Date, the Obligated Parties remain obligated to make annual required filings, as well as notices of specified events filed by the Corporation, under the continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information repository (the "SID"). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC has 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 Obligated Parties receive 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 Obligated Parties have 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 Obligated Parties have agreed to update information and the Corporation has agreed to provide notices of specified events only as described above. The Obligated Parties have not agreed to provide other information that may be relevant or material to a complete presentation of their financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The Obligated Parties make 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 Obligated Parties 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 Obligated Parties to comply with its agreement.

The Obligated Parties may amend their continuing disclosure agreements 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 any of the Obligated Parties, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Obligated Parties (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Obligated Parties may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Obligated Parties amend any of their agreements, they must be included 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 Undertakings**

The Obligated Parties have previously made continuing disclosure agreements in connection with the issuance of the currently outstanding Priority Bonds and New Series Bonds. Except as stated below, the Obligated Parties believe that during the past five years they have each made all required filings under and are in compliance with the Rule.

Certain tables associated with the City of Schertz' Utility System were not updated in accordance with its past continuing disclosure undertakings. Additionally, the City of Schertz' audits for fiscal years ending 2013, 2014, 2016, and 2017 were not linked to the CUSIP associated with the Corporation's obligations. A corrective filing, which provided updated tables, has since been made. Additionally, the aforementioned audits have been properly linked. Procedures have been implemented in an attempt to eliminate future noncompliance in accordance with the Rule.

### **RATING**

S&P Global Ratings (“S&P”) has assigned an underlying rating on the Bonds of “A+” (without regard to credit enhancement). An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of such company at the time the ratings are given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

### **OTHER INFORMATION**

#### **Litigation**

On the date of delivery of the Bonds to the Underwriters, the Corporation will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, 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 affect the provisions made for their payment or security or in any manner questioning the validity of the Bonds.

The Corporation. The Corporation is frequently involved in administrative and regulatory proceedings related to applications for various permits and approvals required in connection with the development, construction and proposed operation of the Project. Any delay caused by protested applications to, or adverse rulings of, administrative bodies or regulatory agencies from which the Corporation must obtain a required permit or approval could delay the development, construction and proposed operation of the Project. Such delay could adversely affect the Project and could result in increased costs of development, financing, construction and/or operation of the Project.

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation intends to address these risks with appropriate insurance coverage.

Except as described herein, there is no litigation, proceeding, inquiry, or investigation pending by or before any court or other governmental authority or entity (or, to the best knowledge of the Corporation and the Cities, threatened) that adversely affects the obligation of the Corporation to deliver the Bonds, the security for, or the validity of, the Bonds or the financial condition of the Corporation or the Cities. As stated above, the Corporation's permits to produce water from its wells are subject to renewal beginning in October 2019 through July 2020. The Corporation's permits for transportation of water outside the GCUWCD have a term of thirty years. In considering an application for renewal of a permit, the Corporation may be subjected to the imposition of additional limitations, including limitations on the amount of water that may be transferred under a permit, and conditions that may be difficult or

expensive to satisfy. The rules of the district also provide that the district may revise or revoke a well production permit at any time if the district finds that the well is causing unreasonable effects on existing groundwater and surface water resources or existing permit holders. (See “INVESTMENT CONSIDERATIONS” and “PROJECT DESCRIPTION.”)

The City of Schertz. Schertz is a defendant in various tort claims and lawsuits with respect to general liability, automobile liability, and various contractual matters. In the opinion of Schertz’s management, the outcome of the pending litigation will not have a material adverse effect on Schertz’s, or Schertz’s utility system’s, financial position or operations.

The City of Seguin. Seguin is a defendant in various tort claims and lawsuits with respect to general liability, automobile liability, and various contractual matters. In the opinion of Seguin’s management, the outcome of the pending litigation will not have a material adverse effect on Seguin’s, or Seguin’s utility system’s, financial position or operations.

## **Environmental Regulations**

The Corporation and Cities are subject to the environmental regulations of the State and the United States in the operation of their utility systems. These regulations are subject to change and the Corporation and the Cities may be required to expend substantial funds to meet the requirements of such regulatory authorities.

## **Legal Matters**

The Corporation will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the Corporation, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Resolution are valid and legally binding special obligations of the Corporation and the interest on such Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions (see “TAX MATTERS”). Though it represents the Financial Advisor, the Cities, and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been retained by and only represents the Corporation 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 describing the Bonds in the Official Statement under the captions “THE BONDS” (except the subcaption “Defaults and Remedies” and “Perfection of Security Interest for the New Series Bonds” as to which no opinion is expressed), “REGISTRATION, TRANSFER AND EXCHANGE,” “SELECTED PROVISIONS OF THE CONTRACT,” “TAX MATTERS,” “CONTINUING DISCLOSURE OF INFORMATION” (except the subcaption “Compliance with Prior Undertakings” as to which no opinion is expressed), “OTHER INFORMATION - Legal Matters,” “OTHER INFORMATION - Legal Investments in Texas,” “OTHER INFORMATION - Registration and Qualification of Bonds for Sale,” and “APPENDIX F - Certain Provisions of the Resolution,” and is of the opinion that the information relating to the Bonds, the Contract and the Resolution contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is 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 in the event of the discontinuance of the Book-Entry-Only System.

Certain matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Certain legal matters relating to the validity and enforceability of the Contract will be passed upon by the Attorney General of Texas, the Corporation’s General Counsel, Davidson, Troilo, Ream & Garza PC, San Antonio, Texas, the City Attorney for the City of Seguin, and the Special City Attorney for the City of Schertz.

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.

## **Legal Investments in Texas**

Section 1201.041, Texas Government Code (the “Public Security Procedures Act”), provides that the Bonds are negotiable instruments, investment securities to which Chapter 8, Texas Uniform Commercial Code applies, and legal and authorized investments for insurance companies, for fiduciaries or trustees and for a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. Texas law further provides that the Bonds are eligible to secure deposits of any public funds of the state, its agencies or political subdivisions and are lawful and sufficient security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (V.T.C.A., Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See “RATING” herein. In addition, various provisions of the Texas Finance Code 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 Corporation 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 Corporation has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **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 Corporation and the Cities assume 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.

### **Financial Advisor**

SAMCO Capital Markets, Inc. is employed as Financial Advisor to the City of Schertz, the City of Seguin and the Corporation to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Corporation or the Cities to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and the sale of the Bonds.

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 Corporation 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 customary conditions, to purchase the Bonds at a price equal to \$\_\_\_\_\_ (representing the par amount of the Bonds of \$\_\_\_\_\_, plus an original issue reoffering premium of \$\_\_\_\_\_, less an Underwriters' discount of \$\_\_\_\_\_), plus accrued interest on the Bonds from their dated date to their date of initial delivery. The Underwriters' obligations are subject to certain conditions precedent, and they 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 prices, 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 pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

### **FORWARD LOOKING STATEMENTS**

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer'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 Issuer. 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.

### **CONCLUDING STATEMENT**

The information set forth herein has been obtained from the Corporation's and the Cities' records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Resolution contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Resolution. These summaries do not purport to be

complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

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

**MISCELLANEOUS**

The Resolution authorizing the issuance of the Bonds approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the reoffering of the Bonds by the Underwriters.

This Official Statement has been approved by the Board of Directors of the Corporation for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

**SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION**

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President  
Board of Directors

ATTEST:

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Secretary  
Board of Directors



**SCHEDULE I**

**Schertz-Seguin Local Government Corporation  
Schedule of Refunded Obligations**

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## SCHEDULE OF REFUNDED OBLIGATIONS\*

### Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, Series 2010

<u>Maturity Date 1-Feb</u>	<u>Principal Amount (\$)</u>	<u>Coupon Rate (%)</u>	<u>Call Date</u>	<u>Call Price</u>
2020	540,000	3.500	2/01/2019	100.00%
2021	560,000	4.000	2/01/2019	100.00%
2022	585,000	4.000	2/01/2019	100.00%
2023	610,000	4.000	2/01/2019	100.00%
2024	630,000	4.000	2/01/2019	100.00%
2025	660,000	4.000	2/01/2019	100.00%
2026	685,000	4.125	2/01/2019	100.00%
2027	715,000	4.250	2/01/2019	100.00%
2028	745,000	4.250	2/01/2019	100.00%
2029	780,000	4.250	2/01/2019	100.00%
2030	815,000	4.500	2/01/2019	100.00%
2031	850,000	4.500	2/01/2019	100.00%
2032	890,000	4.500	2/01/2019	100.00%
2033	930,000 <sup>(1)</sup>	4.625	2/01/2019	100.00%
2034	975,000 <sup>(1)</sup>	4.625	2/01/2019	100.00%
2035	1,020,000 <sup>(1)</sup>	4.625	2/01/2019	100.00%
2036	1,070,000 <sup>(2)</sup>	4.750	2/01/2019	100.00%
2037	1,125,000 <sup>(2)</sup>	4.750	2/01/2019	100.00%
2038	1,175,000 <sup>(2)</sup>	4.750	2/01/2019	100.00%
2039	1,235,000 <sup>(3)</sup>	4.750	2/01/2019	100.00%
2040	1,295,000 <sup>(3)</sup>	4.750	2/01/2019	100.00%
2041	1,360,000 <sup>(3)</sup>	4.750	2/01/2019	100.00%

\* Preliminary, subject to change.

<sup>(1)</sup> Term Bond with a final maturity of February 1, 2035.

<sup>(2)</sup> Term Bond with a final maturity of February 1, 2038.

<sup>(3)</sup> Term Bond with a final maturity of February 1, 2041.

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**APPENDIX A**

**Financial Information Regarding the Schertz/Seguin Local Government Corporation**

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**SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION**

*Schertz/Seguin Local Government Corporation, a public, non-profit corporation (the "Corporation" or the "Issuer") created by the Cities of Schertz and Seguin, Texas (individually, a "City," and collectively, the "Cities"), pursuant to Subchapter D of Chapter 431, Texas Transportation Code, as amended (the "Act"), to aid, assist and act on behalf of the Cities in acquiring, constructing, financing and operating a water utility system. The Corporation employs a full-time manager that is governed by a board of five directors who are appointed by the City Council of each City. (See "THE CORPORATION.")*

**Corporation's Debt Statement<sup>(1)(2)</sup>  
(As of October 1, 2018)**

<u>Priority Bonds</u>	
Contract Revenue Bonds, Series 2001	\$ 10,000,000
Contract Revenue Bonds, Series 2010	520,000 <sup>(1)(2)</sup>
<u>New Series Bonds</u>	
Contract Revenue Refunding Bonds, New Series 2014	4,150,000
Contract Revenue Improvement and Refunding Bonds, New Series 2015	39,595,000
Contract Revenue Bonds, New Series 2016	43,645,000
Texas Water Development Board Participation Loan, Series 2016	22,830,000
Contract Revenue Refunding Bonds, New Series 2018 (the "Bonds")	<u>18,100,000<sup>(1)(2)</sup></u>
Total Bonds Outstanding	138,840,000 <sup>(1)(2)</sup>
Contract Revenue Bonds, Series 2012 (San Antonio Water System Expansion Water Treatment Project 2)	<u>23,040,000</u>
Total Bonds Outstanding	\$161,880,000 <sup>(2)</sup>

<sup>(1)</sup> Excludes the Refunded Obligations.

<sup>(2)</sup> Preliminary, subject to change.

The Corporation has issued revenue bonds, currently outstanding in the amount of \$161,880,000\* to provide funds to build, improve, extend, enlarge and repair the Corporation's utility system, fund a reserve, and pay the costs of bond issuance (or to refund previously issued bonds). The bond resolutions relating to \$138,840,000 in outstanding Bonds pledge intergovernmental contract revenues from the Cities of Schertz and Seguin (the participating governments) to bond holders. Under the intergovernmental water supply contract, the Cities of Schertz and Seguin are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service on Priority Bonds and certain other amounts as operating expenses from their respective utility systems. Contributions to the Corporation are reflected as "Nonoperating Expenses" in the Utility Enterprise Fund. The Bonds represent the fourth series of junior lien obligations and, as such, are designated as "New Series Bonds." The bond resolution relating to Series 2012 issue, currently outstanding in the amount of \$23,040,000, pledges revenues to be paid by the City of San Antonio, Texas, acting by and through the San Antonio Water System ("SAWS") to the Corporation pursuant to the Mutual Regional Water Supply Contract.

\* Includes the Bonds and excludes the Refunded Obligations. Preliminary, subject to change.

**Comparative Statement of Net Position  
(As of September 30, 2017)**

<b>ASSETS:</b>	<u>2017</u>	<u>2016</u>
Current Assets	\$ 15,279,192	\$ 13,527,427
Restricted Cash and Cash Equivalents	73,947,779	7,359,879
Property, Plant and Equipment	95,008,923	95,187,723
Other Assets	<u>28,653,000</u>	<u>108,809</u>
<b>Total Assets</b>	<b>184,264,547</b>	<b>116,183,839</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	2,412,138	<u>2,546,875</u>
Deferred Change on Refunding		
<b>LIABILITIES:</b>		
Current Liabilities	5,522,205	4,858,647
Revenue Bonds (Less Current Maturities & Unamortized Discounts)	<u>164,983,651</u>	<u>100,976,449</u>
<b>Total Liabilities</b>	<b>170,505,856</b>	<b>105,835,096</b>
<b>NET POSITION:</b>		
Restricted	6,255,257	6,364,082
Invested in Capital Assets, Net of Related Debt	(1,956,872)	(2,288,897)
Unrestricted	<u>11,872,444</u>	<u>9,820,433</u>
<b>Total Net Position</b>	<b><u>\$16,170,829</u></b>	<b><u>\$12,895,618</u></b>

**Schertz/Seguin Local Government Corporation**  
**Comparative Statements of Revenues, Expenses and Changes in Net Position**

	2017	2016
<b>Operating Revenue</b>		
Water Usage Fees	\$16,415,653	\$14,675,393
Rents, Royalties & Leases	53,698	146,214
Impact Fees	849,289	927,843
Management Services Provided	121,823	109,985
Miscellaneous Fees	<u>228,048</u>	<u>150,982</u>
<b>Total Operating Revenues</b>	<u>17,668,511</u>	<u>16,010,417</u>
<b>Operating Expenses</b>		
<i>Operations &amp; Maintenance</i>		
Personnel Costs	981,171	979,998
Professional Services	267,438	779,903
Technical Services	368,381	250,750
Utilities	1,668,305	1,713,862
Repairs and Maintenance	295,016	256,109
General Supplies	505,013	479,526
Insurance	46,000	46,000
Other Operating Costs	<u>56,949</u>	<u>68,683</u>
<i>Total Operations &amp; Maintenance</i>	<u>4,188,273</u>	<u>4,571,831</u>
<i>Other Operating Expenses:</i>		
Amortization of Lease Acquisition Costs	80,156	85,399
Annual Lease Payments - Water Rights	2,414,771	2,252,353
Depreciation	<u>2,436,451</u>	<u>2,395,014</u>
<i>Total Other Operating Expenses</i>	<u>4,931,378</u>	<u>4,732,766</u>
<b>Total Operating Expenses</b>	<u>9,119,651</u>	<u>9,304,597</u>
Operating Income (Loss)	<u>8,548,860</u>	<u>6,705,820</u>
<b>Nonoperating Revenues (Expenses):</b>		
Interest Income	772,494	85,829
Gains on Sale of Assets	1,414	-
Interest Expense and Fiscal Fees	(5,131,266)	(4,313,689)
Bond Insurance Costs	<u>(916,291)</u>	<u>-</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(5,273,649)</u>	<u>(4,227,860)</u>
<b>Change in Net Position</b>	3,275,211	2,477,960
<b>Net Position – Beginning of Year</b>	<u>12,895,618</u>	<u>10,417,658</u>
<b>Net Position - End of Year</b>	<u>\$16,170,829</u>	<u>\$12,895,618</u>



**Schertz/Seguin Local Government Corporation Debt Service**

FISCAL YEAR 30-Sep	EXISTING PRIORITY LIEN DEBT SERVICE	LESS REFUNDED OBLIGATIONS DEBT SERVICE	REMAINING TOTAL PRIORITY LIEN DEBT SERVICE	EXISTING SUBORDINATE LIEN DEBT SERVICE	NEW SERIES 2018 REFUNDING BONDS*			TOTAL SUBORDINATE LIEN DEBT SERVICE	TOTAL COMBINED DEBT SERVICE
					PRINCIPAL	INTEREST	TOTAL		
2019	\$ 1,908,363	\$ 859,263	\$ 1,049,100	\$ 5,336,314		\$ 582,862	\$ 582,862	\$ 5,919,176	\$ 6,968,276
2020	1,909,813	1,389,813	520,000	5,505,783	\$ 510,000	809,450	1,319,450	6,825,233	7,345,233
2021	1,909,163	1,389,163	520,000	5,485,919	530,000	788,650	1,318,650	6,804,569	7,324,569
2022	1,911,263	1,391,263	520,000	5,577,508	555,000	766,950	1,321,950	6,899,458	7,419,458
2023	1,912,363	1,392,363	520,000	5,659,245	580,000	744,250	1,324,250	6,983,495	7,503,495
2024	1,907,563	1,387,563	520,000	5,782,841	595,000	720,750	1,315,750	7,098,591	7,618,591
2025	1,911,763	1,391,763	520,000	5,907,644	625,000	696,350	1,321,350	7,228,994	7,748,994
2026	1,909,434	1,389,434	520,000	6,154,492	650,000	670,850	1,320,850	7,475,342	7,995,342
2027	1,910,113	1,390,113	520,000	6,267,921	675,000	644,350	1,319,350	7,587,271	8,107,271
2028	1,909,088	1,389,088	520,000	6,269,553	700,000	616,850	1,316,850	7,586,403	8,106,402
2029	1,911,681	1,391,681	520,000	6,654,183	735,000	588,150	1,323,150	7,977,333	8,497,333
2030	1,911,769	1,391,769	520,000	7,028,843	765,000	558,150	1,323,150	8,351,993	8,871,993
2031	3,657,636	1,389,306	2,268,330	5,289,873	790,000	527,050	1,317,050	6,606,923	8,875,253
2032	3,662,546	1,390,156	2,272,390	5,294,661	825,000	494,750	1,319,750	6,614,411	8,886,801
2033	3,659,875	1,388,625	2,271,250	5,296,397	860,000	456,750	1,316,750	6,613,147	8,884,397
2034	3,659,352	1,389,572	2,269,780	5,297,947	905,000	412,625	1,317,625	6,615,572	8,885,352
2035	3,661,028	1,388,438	2,272,590	5,593,544	955,000	366,125	1,321,125	6,914,669	9,187,259
2036	1,389,438	1,389,438		7,856,869	1,005,000	317,125	1,322,125	9,178,994	9,178,994
2037	1,392,306	1,392,306		7,881,314	1,055,000	265,625	1,320,625	9,201,939	9,201,939
2038	1,387,681	1,387,681		7,890,141	1,105,000	211,625	1,316,625	9,206,766	9,206,766
2039	1,390,444	1,390,444		7,886,133	1,165,000	154,875	1,319,875	9,206,008	9,206,008
2040	1,390,356	1,390,356		7,889,151	1,225,000	95,125	1,320,125	9,209,276	9,209,276
2041	1,392,300	1,392,300		7,883,722	1,290,000	32,250	1,322,250	9,205,972	9,205,972
2042				4,577,419				4,577,419	4,577,419
2043				4,570,326				4,570,326	4,570,326
2044				4,563,983				4,563,983	4,563,983
2045				4,131,833				4,131,833	4,131,833
2046				4,124,178				4,124,178	4,124,178
2047				1,912,522				1,912,522	1,912,522
2048				1,910,063				1,910,063	1,910,063
2049				1,905,635				1,905,635	1,905,635
2050				1,904,238				1,904,238	1,904,238
2051				1,900,693				1,900,693	1,900,693
	<u>\$49,565,334</u>	<u>\$31,441,894</u>	<u>\$18,123,440</u>	<u>\$177,190,887</u>	<u>\$18,100,000</u>	<u>\$11,521,537</u>	<u>\$29,621,537</u>	<u>\$206,812,424</u>	<u>\$224,935,864</u>

\* Preliminary, subject to change. Interest calculated at assumed rates for purposes of illustration.

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**APPENDIX B**

**Financial Information Regarding the Cities' Systems**

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**CITY OF SCHERTZ, TEXAS**

**The City**

The City of Schertz, Texas (“Schertz”), is located directly northeast of the City of San Antonio, Texas. Schertz is located at the geographical center of the San Antonio Metropolitan Statistical Area and has an area of over 29 square miles. Schertz is bisected by U.S. Interstate Highway (“IH”) 35 in the North and its Southern boundary is IH 10.

Schertz was incorporated in December 1958 and is a home rule municipality operating under its own Charter since 1974, as amended. Schertz operates under the Council/Manager form of government pursuant to the laws of the State of Texas. The City Manager, appointed by the seven-member elected City Council and Mayor, is the chief executive officer of the City.

The IH 35 corridor between San Antonio and Austin is one of the fastest developing areas in the State of Texas and the entire country. Schertz enjoys a favorable economic environment and indicators point to continued growth recently surpassing 40,000 residents. SYSCO completed their 630,000 square foot distribution facility in January 2012 and employs 600 full-time staff. This is a regional distribution center for SYSCO. Amazon.com completed construction of their \$166 million fulfillment center on 96 acres in Schertz in time for the 2013 holiday season. The fulfillment center has 1.26 million square feet and is the largest facility in Schertz and in Guadalupe County. Since 2013, Schertz has added 2.2 million square feet of new commercial development. Over 85% of the new space has been built by speculative developers. Major tenants include LKQ Corporation, Ace Mart Restaurant Supply, Berger Allied Moving & Storage, Chadwell Supply, Fidelity National Title, Boss Products, Steelcraft Automotive, and Dunbar Armored. Schertz has also seen strong demand for tenant driven development as FedEx Ground, Keaco, Industrial Group Southwest and Texas Plumbing Supply have each constructed new space. Lastly, multiple Schertz businesses have undergone expansions to help support growing demand including Caterpillar, FedEx Freight, Armortex, Mondelez International, ITM, Southeastern Fright, Texas Utility Engineering, AER Manufacturing, Theis Distributing, and others.

The region has a manufacturing and industrial base that adds to the relative stability of the unemployment rate which was 3.7% in September 2018. The region has a labor force of approximately 1,100,000 and this number is expected to increase in the next several years as the region continues to experience population and business growth. Local indicators point to a strong and growing housing market. Schertz planned well and has an abundant water supply for meeting its future growth.

Schertz’s population has grown from 7,262 in 1980 to 10,555 in 1990; 18,695 in 2000; 31,465 in 2010; and an estimated population of 40,092 in 2018. Schertz continues to see new areas open up for development.

**Utility System Operating Statement**

*The following condensed statements have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers, garbage, bad debt, debt service payments and expenditures identified as capital.*

	Fiscal Year Ended				
	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Revenues	\$25,953,667	\$22,455,674	\$21,007,823	\$19,680,313	\$18,321,198
Expenses*	18,697,162	17,603,487	15,916,597	15,822,737	14,659,528
Net Revenue Available for Debt Service	<u>\$ 7,256,495 <sup>(1)</sup></u>	<u>\$ 4,852,187</u>	<u>\$5,091,226</u>	<u>\$4,433,660</u>	<u>\$3,767,924</u>
Customer Count:					
Water	14,124	13,877	13,570	13,324	12,757
Sewer	12,398	12,282	11,413	11,578	11,249

Source: The City's Comprehensive Annual Financial Reports for Fiscal Year Ending September 30, 2017.

<sup>(1)</sup> For the Fiscal Year Ending 2018, City Management believes that the net revenues available for debt service will be approximately \$4,718,594 (unaudited). Revenue increase for fiscal year ending 2017 was due to larger than usual utility rate increases.

\* Expenditures exclude depreciation and include the following contractual payments:

	9/30/17	9/30/16	9/30/15	9/30/14	9/30/13
Cibolo Creek Municipal Authority	\$ 413,650	\$ 411,550	\$ 315,342	\$ -	\$ -
Schertz/Seguin LGC	2,242,314	1,410,309	1,178,081	1,432,074	1,516,043
Cibolo Valley LGC	300,000	750,000	200,000	140,000	-

**Water System**

Schertz’s primary water source is from the Carrizo Aquifer which is pumped and treated by the Schertz Seguin Local Government Corporation (“SSLGC”); the “Corporation” elsewhere in this Official Statement. SSLGC has water leases totaling 19,363 acre feet

and leases 840 acre feet to Springs Hill and of the remainder 50% are dedicated to Schertz. Schertz's water system has nine water storage tanks which can hold 15,500,000 gallons. Schertz maintains 225 miles of water lines. Schertz's total water usage for fiscal year September 30, 2017 was 1,582,450,300 gallons.

Schertz's secondary source of water is a lease from the Edwards Aquifer Authority for 1,768 acre-feet (or 576,104,568 gallons) per year. Of this amount, 700-acre feet is leased for additional revenue. This water source is used only during emergency situations or when the Schertz utility system demand is at peak levels. Schertz has two wells which can produce up to 4,180,000 gallons per day from the Edwards Aquifer. Although Schertz still maintains its permits (and ownership) to draw water from the Edwards Aquifer, for fiscal year ending September 30, 2017 the City obtained 99% of its water from the Schertz/Seguin Local Government Corporation. Schertz leased its excess Edwards Aquifer water to other entities that did not have capacity. The revenue from leases is included in Schertz's Utility System Revenue.

To develop an additional source of water outside of the Edwards Aquifer, the City of Schertz, along with the City of Seguin, created the Schertz/Seguin Local Government Corporation. The Corporation was charged with financing a new water resource for these cities.

**Water Rates  
(New Rates for 2017-18)**

GALLONS SOLD BY METER SIZE (RESIDENTIAL AND SMALL COMMERCIAL)

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
5/8 IN CODE 1	0	\$ 24.61	\$ 3.04	\$ 28.94	\$ 5.90
	6,000	42.85	3.09	64.37	5.97
	9,000	52.12	3.34	82.29	6.49
	12,000	62.14	3.61	101.77	6.97
	15,000	72.97	3.82	122.70	7.37
	18,000	84.43	4.81	144.82	9.23
	30,000	142.15	5.46	255.64	10.48
	45,000	224.05	5.81	412.91	11.14
	60,000	311.20	6.03	580.09	11.52
	75,000+	401.65	6.15	752.96	11.77
3/4 IN CODE 2	0	35.82	2.95	46.76	5.91
	6,000	53.52	3.00	82.22	5.98
	9,000	62.52	3.24	100.16	6.50
	12,000	72.24	3.50	119.66	6.98
	15,000	82.74	3.71	140.60	7.38
	18,000	93.87	4.67	162.74	9.24
	30,000	149.91	5.30	273.63	10.49
	45,000	229.41	5.64	430.98	11.15
	60,000	314.01	5.85	598.24	11.53
	75,000+	401.76	5.97	771.19	11.78
1.0 IN CODE 3	0	59.70	2.95	77.93	5.91
	6,000	77.40	3.00	113.39	5.98
	9,000	86.40	3.24	131.33	6.50
	12,000	96.12	3.50	150.83	6.98
	15,000	106.62	3.71	171.78	7.38
	18,000	117.75	4.67	193.92	9.24
	30,000	173.79	5.30	304.80	10.49
	45,000	253.29	5.64	462.15	11.15
	60,000	337.89	5.85	629.41	11.53
	75,000+	425.64	5.97	802.36	11.78

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
1 1/2 IN CODE 4	0	\$158.55	\$ 2.95	\$ 155.85	\$ 5.91
	15,000	202.80	3.00	244.50	5.98
	30,000	247.80	3.24	334.21	6.50
	45,000	296.40	3.50	431.71	6.98
	60,000	348.90	3.71	536.42	7.38
	75,000	404.55	4.67	647.12	9.24
	100,000	521.30	5.30	878.13	10.49
	125,000	653.80	5.64	1,140.39	11.15
	150,000	794.80	5.85	1,419.15	11.53
	175,000+	941.05	5.97	1,707.40	11.78
2 IN SIMPLE COMPOUND CODE 5	0	228.53	2.95	249.36	5.91
	24,000	299.33	3.00	391.21	5.98
	48,000	371.33	3.24	534.74	6.50
	72,000	449.09	3.50	690.75	6.98
	96,000	533.09	3.71	858.27	7.38
	120,000	622.13	4.67	1,035.40	9.24
	160,000	808.93	5.30	1,405.02	10.49
	200,000	1,020.93	5.64	1,824.63	11.15
	240,000	1,246.53	5.85	2,270.64	11.53
	280,000+	1,480.53	5.97	2,731.85	11.78
2 IN TURBINE CODE 6	0	285.66	2.95	311.71	5.91
	30,000	374.16	3.00	489.02	5.98
	60,000	464.16	3.24	668.43	6.50
	90,000	561.36	3.50	863.40	6.98
	120,000	666.36	3.71	1,072.85	7.38
	150,000	777.66	4.67	1,294.26	9.24
	200,000	1,011.16	5.30	1,756.27	10.49
	250,000	1,276.16	5.64	2,280.79	11.15
	300,000	1,558.16	5.85	2,838.30	11.53
	350,000+	1,850.66	5.97	3,414.82	11.78
3 IN COMPOUND CODE 7	0	507.34	2.95	498.73	5.91
	48,000	648.94	3.00	782.42	5.98
	96,000	792.94	3.24	1,069.48	6.50
	144,000	948.46	3.50	1,381.49	6.98
	192,000	1,116.46	3.71	1,716.55	7.38
	240,000	1,294.54	4.67	2,070.80	9.24
	320,000	1,668.14	5.30	2,810.03	10.49
	400,000	2,092.14	5.64	3,649.26	11.15
	480,000	2,543.34	5.85	4,541.28	11.53
	560,000+	3,011.34	5.97	5,463.71	11.78
3 IN TURBINE CODE 8	0	761.10	2.95	748.09	5.91
	72,000	973.41	3.00	1,173.64	5.98
	144,000	1,189.41	3.24	1,604.22	6.50
	2,160,00	1,422.69	3.50	2,072.24	6.98
	288,000	1,674.69	3.71	2,574.82	7.38
	408,000	2,119.89	4.67	3,460.46	9.24
	528,000	2,680.29	5.30	4,569.30	10.49
	648,000	3,316.29	5.64	5,828.14	11.15
	768,000	3,883.09	5.85	7,166.18	11.53
	888,000+	4,695.09	5.97	8,549.81	11.78

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
4 IN COMPOUND CODE 9	0	792.72	2.95	779.97	5.91
	75,000	1,013.97	3.00	1,222.54	5.98
	150,000	1,238.97	3.24	1,671.06	6.50
	225,000	1,481.97	3.50	2,158.59	6.98
	300,000	1,744.47	3.71	2,682.11	7.38
	425,000	2,208.22	4.67	3,604.65	9.24
	550,000	2,791.97	5.30	4,759.69	10.49
	675,000	3,454.47	5.64	6,070.98	11.15
	800,000	4,149.47	5.85	7,464.77	11.53
	925,000+	4,890.72	5.97	8,906.06	11.78
4 IN TURBINE CODE 10	0	1,331.70	2.95	\$ 1,309.16	5.91
	126,000	1,703.47	3.00	2,053.86	5.98
	252,000	2,081.47	3.24	2,807.37	6.50
	378,000	2,489.71	3.50	3,626.41	6.98
	504,000	2,930.71	3.71	4,505.93	7.38
	630,000	3,398.17	4.67	5,435.85	9.24
	840,000	4,378.87	5.30	7,376.32	10.49
	1,050,000	5,491.87	5.64	9,579.29	11.15
	1,260,000	6,676.27	5.85	11,920.85	11.53
	1,470,000+	7,904.77	5.97	14,342.22	11.78
6 IN COMPOUND CODE 11	0	1,585.44	2.95	1,558.53	5.91
	150,000	2,027.94	3.00	2,445.08	5.98
	300,000	2,477.94	3.24	3,342.98	6.50
	450,000	2,963.94	3.50	4,317.17	6.98
	600,000	3,488.94	3.71	5,364.22	7.38
	750,000	4,045.44	4.67	6,471.27	9.24
	1,000,000	5,212.94	5.30	8,781.35	10.49
	1,250,000	6,537.94	5.64	11,403.93	11.15
	1,500,000	7,947.94	5.85	14,191.50	11.53
	1,750,000+	9,410.44	5.97	17,074.08	11.78
6 IN TURBINE CODE 12	0	2,917.20	2.95	2,583.51	5.91
	276,000	3,731.40	3.00	4,214.76	5.98
	552,000	4,559.40	3.24	5,865.32	6.50
	828,000	5,453.64	3.50	7,659.41	6.98
	1,104,000	6,196.40	3.71	9,585.98	7.38
	1,380,000	7,443.60	4.67	11,622.94	9.24
	1,840,000	9,591.80	5.30	15,873.49	10.49
	2,300,000	12,029.80	5.64	20,699.03	11.15
	2,760,000	14,624.20	5.85	25,828.18	11.53
	3,220,000+	17,315.20	5.97	31,132.12	11.78
8 IN COMPOUND CODE 13	0	2,562.44	2.95	2,269.09	5.91
	240,000	3,270.44	3.00	3,687.57	5.98
	480,000	3,990.44	3.24	5,122.84	6.50
	720,000	4,768.04	3.50	6,682.92	6.98
	960,000	5,608.04	3.71	8,358.19	7.38
	1,200,000	6,498.44	4.67	10,129.47	9.24
	1,600,000	8,366.44	5.30	13,825.59	10.49
	2,000,000	10,486.44	5.64	18,021.72	11.15
	2,400,000	12,742.44	5.85	22,481.85	11.53
	2,800,000+	15,082.44	5.97	27,093.97	11.78



Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
8 IN	0	\$ 5,124.88	2.95	\$ 5,037.37	5.91
TURBINE	480,000	6,540.88	3.00	7,874.32	5.98
CODE 14	960,000	7,980.88	3.24	10,744.87	6.50
	1,440,000	9,536.08	3.50	13,865.02	6.98
	1,920,000	11,216.08	3.71	17,215.57	7.38
	2,400,000	12,996.88	4.67	20,758.12	9.24
	3,200,000	16,732.88	5.30	28,150.37	10.49
	4,000,000	20,972.88	5.64	36,542.63	11.15
	4,800,000	25,484.88	5.85	45,462/88	11.53
	5,600,000+	32,504.88	5.97	59,299.26	11.78
10 IN	0	3,318.47	2.95	3,620.61	5.91
COMPOUND	345,000	4,336.22	3.00	5,659.67	5.98
CODE 15	690,000	5,371.22	3.24	7,722.88	6.50
	1,035,000	6,489.02	3.50	9,965.49	6.98
	1,380,000	7,696.52	3.71	12,373.70	7.38
	1,725,000	8,976.47	4.67	14,919.90	9.24
	2,300,000	11,661.72	5.30	20,233.09	10.49
	2,875,000	14,709.22	5.64	26,265.02	11.15
	3,450,000	17,952.22	5.85	32,676.45	11.53
	4,025,000+	21,315.97	5.97	39,306.38	11.78
10 IN	0	6,499.16	2.95	6,770.05	5.91
TURBINE	750,000	8,711.66	3.00	11,202.79	5.98
CODE 16	1,500,000	10,961.66	3.24	15,688.02	6.50
	2,250,000	13,391.66	3.50	20,563.26	6.98
	3,000,000	16,016.66	3.71	25,798.49	7.38
	3,750,000	18,799.16	4.67	31,333.73	9.24
	5,000,000	24,636.66	5.30	42,884.12	10.49
	6,250,000	31,261.66	5.64	55,997.02	11.15
	7,500,000	38,311.66	5.85	69,934.91	11.53
	8,750,000+	45,624.16	5.97	84,347.80	11.78
12 IN	0	10,570.07	2.95	9,359.97	5.91
TURBINE	9,900,000	13,490.57	3.00	15,211.18	5.98
CODE 17	1,980,000	16,460.57	3.24	21,131.69	6.50
	2,970,000	19,668.17	3.50	27,567.00	6.98
	3,960,000	23,133.17	3.71	34,477.52	7.38
	4,950,000	26,806.07	4.67	41,784.03	9.24
	6,600,000	34,511.57	5.30	57,030.55	10.49
	8,250,000	43,256.57	5.64	74,339.57	11.15
	9,900,000	52,562.57	5.85	92,737.59	11.53
	11,550,000+	62,215.07	5.97	111,762.60	11.78
			RATE 1000		
FH METER		135.75	9.40		
Cibolo Wholesale Water Rate			3.27		

DROUGHT CONTINGENCY SURCHARGES

2017-18

For the first 1,000 gallons over allocation*	\$ 2.00
For the second 1,000 gallons over allocation*	\$ 3.00
For the third 1,000 gallons over allocation*	\$ 4.00
For each additional 1,000 gallons over allocation*	\$ 5.00
 Drought Contingency Violation Fines, up to	 \$200.00

\* Refer to the conservation ordinance for all allocations.

**Historical Water Consumption (Gallons)**

Fiscal Year Ended 9-30	Estimated City Population <sup>(1)</sup>	Number of Customers	Water Usage			Total Usage	Water Sales \$\$\$
			Daily Average	Peak Day	Peak Month		
2008	32,057	10,872	3,854,205	7,996,000	182,463,000	1,392,387,500	6,091,802
2009	31,465	11,471	4,157,619	7,520,000	178,309,000	1,505,068,700	6,886,443
2010	32,523	10,134	3,560,416	7,040,000	180,345,000	1,182,179,600	6,361,401
2011	33,544	12,234	4,667,789	11,000,000	227,186,000	1,612,610,500	7,816,710
2012	34,499	12,557	5,224,301	9,290,000	224,192,000	1,613,141,500	7,657,695
2013	35,201	12,757	4,935,155	9,483,000	204,492,000	1,550,045,200	7,660,165
2014	35,929	12,903	4,148,771	7,115,000	213,349,000	1,549,707,100	7,960,763
2015	36,477	13,570	4,043,050	8,385,050	218,644,000	1,475,713,400	7,943,694
2016	37,865	13,877	4,113,553	8,587,000	214,546,000	1,501,446,900	8,543,050
2017	37,938	14,124	4,335,480	9,478,000	218,181,000	1,582,450,300	9,741,286
2018	39,453	14,567	4,532,352	9,083,000	230,144,000	1,519,008,100	10,271,113

<sup>(1)</sup> Source: The City of Schertz.

**Principal Water Customers**  
(Year Ending 9/30/2017)

<u>Name of Customer</u>	<u>Total Water Consumption (in Gallons)</u>
1. Caterpillar Inc.	18,837,200
2. Scenic Hill Lawn Care	12,896,100
3. Schertz 1518	12,586,700
4. Beck Readymix Concrete	10,546,200
5. Pecan Grove Tx LLC	8,132,300
6. Sycamore Creek Apartments	7,871,300
7. Big Time Management Properties	7,372,600
8. Sebastian Apartments	6,740,000
9. Waterford Ridge Apartments	6,131,700
10. Wal-mart Supercenter	<u>5,928,400</u>
<b>Total</b>	<b>97,042,500</b>

The top 10 water users represent approximately 6.03% of total sales for fiscal year ending 9/30/2017.

**Wastewater System**

Schertz's Wastewater System consists of a 110 mile wastewater collection system. The collection system is owned and operated by the City. Schertz contracts with the Cibolo Creek Municipal Authority, created in 1971 as a conservation and reclamation district, for the purpose of providing a regional sewer system for an area which includes Schertz, the City of Selma, the City of Cibolo, and parts of the cities of Live Oak, Universal City and San Antonio, and the Randolph Air Force Base (the "Member Cities") for the treatment of effluent. In 2016, Schertz began developing in areas that are serviced by San Antonio River Authority who are currently servicing 53 resident accounts.

Schertz' Wastewater System is responsible for maintaining the collection system and billing its citizens that are on the wastewater system. The rates, which are shown below, produce revenues that are sufficient to pay the sanitation costs, maintain the collection system, pay debt service, if any, and overhead.

New Rates  
(Effective October 1, 2018)

Residential Rates (Single Family)

Base rate per month	\$12.54
Per 1,000 gallon charge, per month	
City line maintenance fee plus franchise fee	\$ 0.49
User charge based on 100% of average consumption mo.	\$ 3.83
User avg. based on Nov, Dec. and Jan, min. 500 gallons	
Per 1,000 gallon charge total- 12,000 gallons or less	\$ 4.32
Greater than 12,000 gallons	\$ 9.37

Business and Multi-Family Dwelling Units:

Base rate per month	\$15.77
The base rate shall be assessed in terms of connection equivalents which shall be as follows: the customer's previous 12-month water consumption as determined at the annual re-rating in February divided by 365, with the results of such division then divided by 245 gallons. The figure arrived at by the second division shall be the customer's "connection equivalent." Each business shall be assessed a base rate.	
Per 1,000 Gallon Charge, Per Month	
Line maintenance-commercial/industrial users plus franchise fee	\$ 0.59
User charge based on 100% of water consumed	\$ 3.83
Per 1,000 gallon charge total- 12,000 gallons or less	\$ 4.42
Greater than 12,000 gallons	\$ 9.46

Public Schools

Base rate per month	
Base rate each public school shall be assessed a base rate per connection equivalent determined as in business and multi-family dwelling units above (per month).	\$15.77
Per 1,000 Gallon Charge, Per Month	
Line maintenance-commercial/industrial users	\$ 0.59
User charge based on 100% of all water consumed	\$ 3.83
Per 1,000 gallon charge total – 12,000 gallons or less	\$ 4.42
Greater than 12,000 gallons	\$ 9.46

For Information Purposes Only:

Cibolo Creek Municipal Authority (CCMA), Per 1,000 gallons	\$ 3.83
Includes 5% franchise fee	

**Schertz's Water and Sewer System Debt Service**

Schertz has four series of self-supporting general obligation bonds outstanding. Set forth below are the debt service requirements for Schertz's currently outstanding issues as of September 30, 2017.

Fiscal Year Ending 9/30	Self-Supporting General Obligation Debt
2018	\$ 1,491,496
2019	1,911,789
2020	1,888,964
2021	1,896,409
2022	1,349,471
2023	1,347,917
2024	1,349,369
2025	1,344,016
2026	1,124,835
2027	636,475
2028	635,600
2029	638,675
2030	632,325
2031	633,275
2032	635,025
2033	630,969
2034	395,688
2035	399,394
2036	397,466
2037	394,978
2038	<u>396,825</u>
Total	\$20,130,958

**CITY OF SEGUIN, TEXAS**

The City of Seguin, Texas ("Seguin"), is the county seat and principal commercial center of Guadalupe County. Seguin is located in South Central Texas along IH 10 between San Antonio and Houston. San Antonio, the 9th largest city in the United States, is 30 minutes west of Seguin via IH 10. Austin, the state capital, is accessible 50 miles to the north by State Highway 123 and the U.S. Interstate Highway 35 corridor.

Incorporated in 1853, Seguin operates under a home-rule charter, which was adopted on December 7, 1971. Seguin has a council-manager type of government composed of the manager, mayor and eight councilpersons elected for four-year terms.

Seguin's population has grown from 17,854 in 1980 to 18,853 in 1990 (an increase of 5.6%) and 22,011 in 2000 (an increase of 16.75%). The estimated population in 2018 is 29,241.

The area has been economically stable for many years because of the industries located there. The major area employers, their products and approximate number of employees, as reported by the Texas Workforce Commission, Seguin Economic Development Corporation, and business entities, are given below:

<u>Name</u>	<u>Product</u>	<u>Number of Employees</u>
Continental Automotive Systems	Automotive Manufacturing	1,560
Caterpillar	Engine Assembly	1,250
Seguin Independent School District	Education	1,130
CMC Steel Texas	Steel Products Manufacturing	835
Tyson Foods, Inc.	Poultry Processing	745
Guadalupe Regional Medical Center Government579Guadalupe	Healthcare	700
Guadalupe County	County Government	595
City of Seguin	City Government	350
HEB	Retail	340
Walmart Supercenter	Retail	300
Texas Lutheran University	Higher Education	<u>260</u>
Total		8,015

Many people commute to nearby San Antonio and Randolph Air Force Base for employment.

With the development of SH-130 providing an alternate route from the IH-35 gridlock, commercial traffic is diverted from just north of Austin to Seguin. This places Seguin as a very strategic location for distribution centers and manufacturers alike and will impact both retail and industrial market growths complementing the already accelerated growth trend.

### Utility System Customer Count

Customer Count:	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>
Electric	8,538	8,438	8,500	8,314	8,293
Water	7,511	7,298	7,257	7,120	7,091
Wastewater	<u>6,821</u>	6,809	6,770	6,415	6,379

### FIVE-YEAR CONSOLIDATED OPERATING STATEMENT SHOWING COMBINED EARNINGS OF CITY'S ELECTRIC, WATER AND SEWER SYSTEM AND APPLICATION OF NET EARNINGS FOR PAYMENT OF INDEBTEDNESS

<b>Fiscal Year Ending</b>	<b><u>9-30-2017</u></b>	<b><u>9-30-2016</u></b>	<b><u>9-30-2015</u></b>	<b><u>9-30-2014</u></b>	<b><u>9-30-2013</u></b>
Income:	\$50,369,518	\$46,694,348	\$42,679,943	\$42,038,404	\$40,866,954
Expenses:					
Power Purchased	18,351,972	16,367,503	17,997,644	14,837,534	18,526,887
Other	<u>23,355,181</u>	<u>21,986,954</u>	<u>19,834,315</u>	<u>18,283,965</u>	<u>17,243,027</u>
Total Expenses	\$41,707,153	\$38,354,457	\$37,931,959	\$33,121,499	\$35,769,914
Net Revenue Available for Debt Service	\$ 8,662,365	\$ 8,339,891	\$ 4,747,984	\$ 8,916,905	\$ 5,097,040
Annual Requirement Prior Lien Debt	\$ 1,761,445	\$ 1,881,744	\$ 1,613,175	\$ 1,114,038	\$ 1,473,771
Coverage of Outstanding Annual Requirement for Prior Lien Debt	4.92x	4.43%	2.94x	8.00x	3.46x

Source: City's audited financial statements and City Officials.

### DESCRIPTION OF THE UTILITY SYSTEM

The complete management and control of the City of Seguin Utilities (the "CSU") is the responsibility of the City Council. The City Council consists of a Mayor and eight Council members elected by district for staggered four-year terms. The approval of the policies governing the CSU by the City Council is pursuant to the authority granted by the statutes of the State of Texas and by the Home Rule Charter of the City (the "Charter"). The City Council appoints a City Manager who services as the Chief Executive Officer. The overall management of the CSU is the responsibility of the City Manager and the day-to-day management of the CSU is the responsibility of the Director of Utilities appointed by the City Manager.

The CSU is a municipally owned utility providing electric, water, and wastewater services to a population of 29,241 in a 38.4 square mile area in the City. The service territory is completely within Guadalupe County.

### UTILITY RATE REGULATIONS

Under existing law, the City is free from the rate setting jurisdiction and control of any federal, state, or local agency and has the exclusive authority to set rates and charges for electric, water, and wastewater services. The City is, however, subject to the Public Utility Commission of Texas' ("PUCT") jurisdiction for its electric service areas outside the City limits and is subject to certain rate review procedures by the Texas Commission on Environmental Quality for its water and wastewater service areas beyond the City limits. Approximately 0.13% of the City's electric customers are located outside the City limits. The number of water customers located outside the City limits is approximately 2.2% of the total and there are no wastewater customers outside the City limits.

### THE ELECTRIC SYSTEM

The City serves 8,549 electric meters while supplying a total energy requirement of 312.410 and a peak system demand of 81.28 MW. Sales of electricity to individual City electric customers are made in accordance with one of five consumer rate classifications.

The residential customer classification includes service to 7,131 single family residential consumers where all energy is taken through a single meter, as well as domestic use multiple dwelling units individually metered.

The small commercial classification includes all commercial customers having peak demands no greater than 25 kilowatts. This class currently has 1,002 accounts.

The medium commercial and industrial category included service to all large power customers whose monthly peak demand is between 25 and 500 kilowatts. The number of customers in this classification is 402 meters. This growth trend is expected to

continue in light of the City's ongoing efforts to attract outside concerns and the anticipation of continued development in the industrial parks.

The large commercial and industrial classification is comprised of all electric customers whose peak demand is equal to or exceeds 500 kilowatts. At present, this class includes 14 accounts. Additional customers are anticipated as the industrial parks continue to grow.

The energy requirements of the City are supplied through three delivery points; these include the Lower Colorado River Authority's (the "LCRA") Seguin, Cushman and Seguin West Substations. Together, these three substations supply all of the City's energy requirements. Currently CPS Energy supplies 100% of the City's wholesale electric power needs through a "Power Supply Agreement" effective as of April 12, 2011, and effective through December 31, 2023, with an option to extend the term of the agreement through December 31, 2026. By the terms of the Power Supply Agreement, any shortfall in the baseload capacity provided to the City may be remedied by an adjustment of the agreement upon coal/gas pricing ratio or by exercising commercially reasonable efforts to secure a third-party energy supplier.

The present installed capacity of the LCRA Seguin Substations is 140 MVA, Seguin Substation has a capacity of 50MVA and is supplied by one 20 MVA transformer and one 30 MVA transformer. Cushman Substation has a capacity of 40 MVA and is supplied by two 20 MVA transformers. Seguin West Substation has a capacity of 50 MVA and is supplied by one 30 MVA and one 20 MVA transformer. The measured peak demand for the summer of 2017 on the Seguin T-4, Seguin T-5, and Cushman T-1, Cushman T-2 substation and Seguin West substation transformers were 19.42MVA, 12.45MVA, 12.32MVA, 12.93MVA and 24.15MVA, respectively.

The City's electric system is currently served by nineteen distribution feeder. The distribution system is comprised of 120 miles of overhead distribution line to include single phase, two phase and three phase. The City also has 32 miles of underground distribution lines to include three-phase, two-phase, single-phase, and underground.

## **Electric Rate Regulation**

**General Regulation of Rates...**Under existing law, the City is free from the rate-making jurisdiction and control of any federal, state or local agency and has the exclusive authority to set rates and charges for electric, water, and wastewater services. However, the City is subject to the Texas Public Utility Commission's ("PUCT") jurisdiction for its electric service areas located beyond the City limits (see discussion below) and is subject to certain rate review procedures by the Texas Commission on Environmental Quality for its water and wastewater service areas beyond the City limits. Approximately 0.13% of the City's electric customers are located outside the City limits.

The City has exclusive original jurisdiction within the corporate boundaries of the City and original jurisdiction within its certified service area outside the boundaries of the City to fix all rates for all retail services furnished by the System, subject to the approval of the City Council of the City. In areas outside the boundaries of the City, retail rates are subject to review under the PUCT's appellate jurisdiction upon the proper filing of a petition by the lesser of 10,000, or 5% of the ratepayers situated outside the boundaries of the City. The City reports that there are currently no petitions on file, and it is not aware of any planned filings. The System currently is not subject to federal regulation in the fixing of rates.

**Electric Retail Service Rates...**Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility ("IOU"). Since the electric deregulation aspects of SB 7 (hereinafter described) became effective on January 1, 2002, the PUCT's jurisdiction over IOU companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities ("Municipal Utilities"), such as the CSU, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. See "Transmission Access and Rate Regulation" herein. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as the System has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates.

The City has covenanted and is obligated under the ordinances authorizing its utility system indebtedness to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the System and to pay the debt service requirements on all revenue debt of the System and to make all other payments prescribed in the respective bond ordinances relating thereto.

**Electric Transmission Access and Rate Regulation...**Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including the System, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method, now the nodal market system, be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for ERCOT. The System's wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing the System's input to the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b),

also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. Additional information on recovery of ERCOT transmission fees is discussed in “Governmentally Imposed Fees, Taxes or Payments” below and the transition to the nodal market is discussed in “REGULATORY MATTERS - Post Senate Bill 7 Wholesale Market Design Developments” herein.

***Governmentally Imposed Fees, Taxes or Payments...***System retail rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease of fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required and which are payable out of or are based upon Net Revenues of the System.

In March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to the City’s electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT-related transmission expenditures not recovered through the System’s current base rates. For residential System customer rates, this adjustment (effective September 2006) currently adds an additional \$0.00154 per kWh sold. The second assessment relates to the System’s share of the cost to fund the staffing and operation of ERCOT, the Independent System Operator (“ISO”). The PUCT retains oversight authority over ERCOT. For residential System customers, this charge increases bills by an additional \$0.00059 per kWh sold.

***The Electric Utility Industry Generally...***The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities. One of the most significant of these factors has been the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level.

Such factors include, among others, (i) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory, and legislative requirements; (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (iii) changes that might result from a national energy policy; (iv) increased competition from independent power producers; (v) “self-generation” by certain industrial and commercial customers; (vi) issues relating to the ability to issue tax-exempt obligations; (vii) severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (viii) changes from previously projected future electricity requirements; (ix) increases in costs; (x) shifts in the availability, intermittency, and relative costs of different fuels; (xi) management and integration of renewable generation into the supply portfolio; and (xii) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. Seguin cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

The November 8, 2016 election of President Trump and the retention of control of the United States Senate by Republicans created an opportunity for the incoming administration to shape federal policies not seen since George W. Bush came into office in 2001. President Trump's administration promised regulatory reforms of the Obama Administration's policies that are expected to have an impact on federal energy policy. Specifically, President Trump has vowed to drastically alter the country's direction on climate and energy policy. His promises include actions such as withdrawing from the Paris Agreement and dismantling the EPA as well as repealing restrictions on domestic energy development.

Regulatory reform continues to be a focus of the Trump administration. Notable actions by President Trump in the energy sector include an Executive Order he signed on March 28, 2017, directing the EPA to start the process of re-evaluating and rewriting the Clean Power Plan - the EPA’s rule, issued in final form in late 2015, to reduce carbon dioxide emissions from fossil fuel-fired power plants. Federal agencies are in the process of gathering information to comply with this directive. More specific to the electricity sector, in Executive Order 13783, President Trump directed the EPA to immediately review and, as appropriate, suspend, revise or rescind the regulations relating to greenhouse gas emissions from the electric sector. Because such an action is governed by processes established in federal law, the EPA will have to go through a formal rulemaking process, subject to input from the public, before electric utilities will know how the Trump administration wants to regulate greenhouse gases. This process could take considerable time.

President Trump announced on June 1, 2017 that the United States would withdraw from the international climate accord that was reached in Paris, France, in 2015. In the announcement, President Trump said the Paris agreement “is unfair to the U.S. in a number of ways, explaining that nations such as China and India will have fewer restrictions on using coal to produce energy than would be imposed on the United States.” He said the accord “is less about the climate and more about other countries getting a financial advantage over the U.S.”

Currently, numerous pieces of energy legislation are pending in the 115th Congress regarding conservation of resources, security measures, infrastructure projects, among others.

On December 16, 2016, former President Obama signed into law the Water Infrastructure Improvements for the Nation Act (“WIIN Act”), which included industry-supported coal ash legislation and funding for water improvements. The WIIN Act was the product of bipartisan negotiations, and it includes the Water Resources Development Act (“WRDA”) of 2016. Under the new law, the

Resource Conservation and Recovery Act (“RCRA”) is amended to allow states to design a coal ash permit program that will then be approved by the EPA. If states do not design a coal ash permit program, the federal coal ash rule remains in effect.

In 2013, President Obama issued an Executive Order “Improving Critical Infrastructure Cybersecurity,” to develop a voluntary risk-based cybersecurity framework. The NIST framework (the “Framework”) was finalized and released in mid-February 2014. The Framework is designed to be a living document and continual updates occur concerning its development. The Framework covers 16 sectors and the portion pertaining to the energy sector will be implemented by the DOE. Compliance is voluntary. The DOE continues to explore methods to encourage compliance, such as possibly issuing grants. In an update provided July 1, 2015, NIST has engaged in education and outreach efforts, as well as a campaign to clarify and highlight guides consistent with the Framework. On December 11, 2015, NIST issued an additional request for information on its “Views on the Framework for Improving Critical Infrastructure Cybersecurity,” to receive feedback. NIST released an analysis of the responses received to this request on March 24, 2016, and circulated and updated draft version refining, clarifying, and enhancing the Framework on January 10, 2017. During the 114th Congressional Session, cybersecurity remained a priority and bills were introduced to protect against threats, including the *Cybersecurity Act of 2015*, which then-President Obama signed into law in December 2015. The 115th Congress made cybersecurity and grid security a priority in 2017 with a focus on holding hearings regarding preparedness of the electric utility sector for cybersecurity threats. Numerous pieces of cybersecurity legislation, in various stages, are pending before the Congress. Pursuant to an executive order issued by President Trump on May 11, 2017, entitled Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure, all federal agencies are required to use the Framework to manage cybersecurity risks.

The DOE, the DHS, and a number of other agencies held 10 briefings nationwide, which concluded in early February 2014. These meetings follow an April 2013 attack on Pacific Gas & Electric Company's infrastructure, which has also led to heightened consideration by members of Congress regarding the federal government's role in addressing cybersecurity risks directed at the country's critical infrastructure.

The System uses multiple security measures to protect its physical assets. In-house and third-party physical security audits and analysis are routinely performed. Access control / card reader systems are located throughout the System, including at substation fences and control houses. Other technologies, such as cameras, photoelectronic (“PE”) beams, fiber optic fence detection systems and lighting, are also employed to deter security threats.

On March 7, 2014, the Federal Energy Regulatory Commission (“FERC”) directed the North American Electric Reliability Corporation (“NERC”) to develop reliability standards requiring owners and operators of the bulk-power system to address risks due to physical security threats and vulnerabilities. The order gave NERC 90 days to submit one or more proposed standards that require owners and operators of the bulk-power system to take at least three steps to protect physical security. NERC met the deadline and drafted a standard (“CIP-014-1”), which requires transmission owners and operators to (1) perform a risk assessment of their system to identify facilities that, if damaged, could have a critical impact on the operation of the bulk-power system; (2) evaluate potential threats and vulnerabilities to those facilities; and (3) develop and implement a security plan to address potential threats and vulnerabilities. The final rule was issued on November 20, 2014. The System has taken steps to comply with the CIP-014 standard requirements.

The FERC acted in July 2016 to improve the cyber security of the bulk electric system (“BES”) NERC to develop a supply chain risk management standard to address risks to information systems and related electric system assets. FERC directed NERC to develop a Critical Infrastructure Protection (“CIP”) Reliability Standard that requires entities to develop and implement a supply chain management plan for industrial control system hardware, software, and vendor services associated with electric system operations. NERC was required to submit the new CIP standard within one year. The standard was developed and approved by NERC on June 16, 2017. The new standard will become effective after FERC's approval. The System will continue monitoring the development of this new CIP standard.

During the final months of the 112th United States Congress, lawmakers extended various tax credits. The Senate Finance Committee had approved a \$205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package expired on December 31, 2013, including the tax credit for electricity produced by wind and other renewable resources. Congress in 2014 failed to pass legislation extending these tax credits. At the end of 2015, the 114th Congress passed a five-year extension, modification and phase-out of the Investment Tax Credit (“ITC”) for solar power and the Production Tax Credit (“PTC”) for wind and other renewables. The bill extended the PTC as-is for two years (including one retroactive year because the credit expired at the end of 2014), and phases out the credit to 80% in 2017, 60% in 2018, and 40% in 2019. The 30% temporary ITC was extended for three additional years (from its original December 31, 2016 expiration) and would then be phased out with a 26% credit in 2020, a 22% credit in 2021, and a 10% credit in 2022.

On September 22, 2009, the EPA finalized the nation's first greenhouse gas reporting system / monitoring regulations that will require large emitters of heat-trapping emissions to collect GHG data. While Congressional action on environmental policy has been limited, the focus has been at the administrative level at the EPA. Additional information can be found in the “ENVIRONMENTAL MATTERS” section herein. On August 3, 2015, the EPA released its Clean Power Plan that proposes to reduce carbon dioxide emissions from power plants by 32% (relative to 2005 levels) by 2030. In February 2016, the U.S. Supreme Court granted an emergency stay of the Clean Power Plan that puts implementation of the rule on hold while the courts hear legal challenges to it. In September 2016, the D.C. Court of Appeals heard oral arguments. In early 2016, President Trump directed the Justice Department to ask the court to postpone or forego consideration of the Clean Power Plan. Further legal action was stayed for 60 days by court order issued on April 28, 2017. In the latest court-ordered status report, dated as of June 29, 2017, the EPA requested abeyance pending the conclusion of President Trump's expected forthcoming rulemaking regarding the Clean Power Plan. President Trump's replacement



for the Clean Power Plan is being reviewed by the Office of Management and Budget, a necessary step before releasing to the public for comment.

**Federal Energy Legislation**... The Energy Policy Act of 2005 (“2005 Energy Act”) extended limited FERC jurisdiction, known as “FERC-Lite,” over public power entities within ERCOT, such as the System that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the ERO and to establish mandatory reliability standards for operation of the nation’s transmission system.

The 2005 Energy Act included several provisions that could affect the System’s business and continue to be evaluated by management, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC’s merger review authority;
- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non- or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and of a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for weatherization of low-income homes and state energy efficiency programs. The 2005 Energy Act also included provisions affecting existing nuclear generating units, including:
  - extension of the Price-Anderson Act to 2025 and increases in the retrospective premiums for which licensees are liable for claims resulting from a nuclear incident;
  - expansion of the NRC authority to regulate decommissioning trust funds (primarily affecting funds held by former plant licensees);
  - direction of the DOE to take responsibility for safe disposal of high-level radioactive waste;
  - procedural protections for individuals filing claims under federal whistleblower provisions;
  - enhanced provisions relating to NRC oversight of the security of licensed facilities; and
- various decommissioning tax-related adjustments beneficial to federal tax-paying licensees.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 (“PURPA”) by adding five new standards that Municipal Utilities must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or “smart” metering, and the interconnection of distributed generation.

In December 2007, the President signed the Energy Independence and Security Act (“EISA”) requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. Municipal Utilities, such as the System, are designated as “non-regulated” under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

**FERC Authority.** In 1992, pursuant to the Energy Policy Act of 1992 (“Energy Act”), the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. Municipal Utilities are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated subsequent to the Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access nondiscriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary

formation of regional transmission organizations in order to promote fair and open access to electric transmission service and facilitate wholesale competition. See “THE ELECTRIC SYSTEM - Energy Rate Regulations” herein. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization. Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving and enforcing electric reliability standards. FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities (“RE”) implementation of electric reliability standards. A separate group within the ERCOT region, the Texas Reliability Entity, was selected to serve as the RE for the ERCOT service area. Finally, on September 2, 2009, FERC executed a memorandum of agreement (“MOA”) with the NRC to facilitate interactions between the NRC and the FERC on matters of mutual interest pertaining to the nation’s electric power grid reliability and nuclear power plants. Matters being addressed under this MOA include cyber-security requirements, reliability requirements for nuclear power plants, and grid stability issues related to nuclear plant operation. Seguin officials will continue to monitor and evaluate FERC developments with a potential to impact Seguin System; however, it is unclear what changes, if any, will be proposed as a result of the MOA.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curiam opinion issued by the United States Court of Appeals for the District of Columbia on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERC's approval as to capacity performance program changes.

***The Public Utility Commission of Texas (PUCT)***...The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. The PUCT is comprised of two commissioners and a chair appointed by the Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. Beginning in 2021, as a result of legislation passed by the 84th Legislature in 2015, the PUCT will require MOUs to file certificates of convenience and necessity (“CCN”) to build transmission outside its city limits. The PUCT thereafter set a rulemaking schedule to revise the current process for obtaining CCNs in accordance with the new legislation (“Project No. 45124”). The rulemaking also considered modification to the Competitive Renewable Energy Zones Rule. The proposed rules were published February 11, 2016, with a comment period following. Commissioners adopted the rules at the June 9, 2016 Open Meeting and were effective July 5, 2016. These rules allow for MOUs to continue building transmission outside their service areas plus 10 miles until the 2021 effective date, without having to go to the PUCT for a CCN. Effective May 28, 2017, the PUCT issued a new rule allowing the PUCT, after notice and hearing, to revoke or amend any CCN if the PUCT finds that certain adverse conditions exist. The PUCT does not directly regulate retail rate cases of municipally-owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

***Texas Reliability Entity (Texas RE)***...Headquartered in Austin, Texas, Texas Reliability Entity, Inc. (“Texas RE”) performs the regional entity functions described in the 2005 Energy Act, which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region as well as to assess and periodically report on the reliability and adequacy of the bulk-power system. In addition, Texas RE has been authorized by the PUCT and is permitted by NERC to investigate compliance with the ERCOT Protocols and Operating Guides, working with the PUCT staff regarding any potential protocol violations. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010.

***ERCOT***...ERCOT is one of eight Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves approximately 24 million customers, representing approximately 90% of Texas’ electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains a total of 46,500 miles of transmission lines, including 9,249 miles at 345-kV. On June 14, 2017, the ERCOT Board of Directors endorsed a transmission project that includes two new 345-kV lines to address future reliability concerns in West Texas. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current (“DC”) ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import / export capability.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT’s organizational structure, the ISO reports to the ERCOT Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT’s finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT’s statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chairman is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization’s costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are

responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 (described in greater detail below under “Electric Utility Restructuring in Texas”) provides that a retail electric provider, municipally-owned utility, electric cooperative, power marketer, transmission and distribution utility (“TDU”), or Power Generation Company shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT’s transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service (“TCOS”), which is set by the PUCT.

In September 2006, the PUCT selected Potomac Economics (“Potomac”), an energy consulting firm, to serve as the independent market monitor (“IMM”) for ERCOT, a function that was legislated at the request of the PUCT by the 2005 Texas Legislature. The IMM has the authority to conduct monitoring, analysis and reporting activities but has no enforcement authority. A PUCT rule provides that the IMM shall report directly to the PUCT any potential market manipulations, including market power abuse, and any violations of PUCT rules or ERCOT protocols.

The PUCT rule establishes the IMM as an office independent from ERCOT, which is not subject to the supervision of ERCOT with respect to its monitoring and investigative activities. ERCOT funds the operations of the IMM, but the budget and expenditures of the IMM are subject to PUCT supervision and oversight. The ethical standards governing the IMM director and staff are intended to prevent conflicts of interest between the IMM and a market participant or an affiliate of a market participant. The rule took effect in April 2006.

***Electric Utility Restructuring in Texas...*** During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner’s use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to Municipal Utilities, such as the CSU, as well as other provisions that govern investor owned utilities (“IOUs”) and electric co-operatives (“Electric Co-ops”). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those Municipal Utilities and Electric Co-ops that elect to opt-in, on or after that date, to choose their electric energy suppliers. Provisions of SB 7 that apply to the CSU, as well as provisions that apply only to IOUs and Electric Co-ops, are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which CSU could choose to directly participate in the future. The Seguin City Council has taken no action to “opt-in” to this deregulated electric utility system.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission / distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non-discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories (“opt-in”) to retail electric competition are not required to, but may, unbundle their electric system components.

***Entities that have Opted-in to Competition...*** The following discussion relates to entities that are currently in electric competition in Texas and does not apply to CSU but could apply if CSU were to opt-in to electric competition. Generation assets of IOUs are owned by Power Generation Companies, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities (“TDUs”) are fully regulated by the PUCT. Retail sales activities are performed by Retail Electric Providers (“REPs”) which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, and/or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). TDUs, Municipal Utilities, and Electric Co-ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers. The PUCT is required to approve the construction of TDUs’ new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities’ governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within Texas that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another qualified

entity as the Provider of Last Resort for its service territory. In such cases, the respective Municipal Utility or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their “stranded costs” (the net book value of certain “non-economic” assets less market value and certain “above market” purchased-power costs) and “regulatory assets”, which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU’s service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the “competitive transition charge”. Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the “securitized” bondholders.

***Additional Impacts of Senate Bill 7 Deregulation...*** Municipal Utilities and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of Municipal Utilities such as CSU and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a Municipal Utility or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

SB 7 preserves the PUCT’s regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% “postage stamp” pricing methodology (now the nodal market system).

Any future decision of the Seguin City Council to participate in full retail competition would permit Seguin to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of the CSU. The Seguin City Council could likewise choose to open the CSU’s service area to competition from other suppliers while choosing not to have Seguin compete for retail customers outside its certified service area.

As discussed above, Municipal Utilities and Electric Co-ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits Municipal Utilities and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. Municipal Utilities and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by Seguin as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

A Municipal Utility that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anticompetitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of Municipal Utilities electing to compete in the retail market. If a Municipal Utility decides to participate in retail competition, its customers are subject to being charged a PUCT-approved System Benefit Fund fee per megawatt hour beginning six months prior to implementation of customer choice. The fee is a contribution to a statewide fund targeted at property tax replacement, low-income assistance programs, and customer education.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts and the right of Municipal Utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

During its 83rd Legislative Session in 2013, the Texas Legislature reviewed and passed the mission and performance of the PUCT and the RRCT as required by the Texas Sunset Act. This act provides that the Sunset Advisory Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Advisory Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future.

The Sunset Advisory Commission reviewed the PUCT and the RRCT in 2013 and made recommendations to the 83rd Legislature on the agencies, including their continuance. The 83rd Legislature approved the PUCT Sunset bill (HB 1600), continuing the PUCT

until 2023. The Sunset legislation for the RRCT failed to pass in both 2013 and 2015, triggering a third consecutive review of the agency. In December 2016, the Sunset Advisory Commission recommendations were finalized and filed as the RRCT's Sunset Bill for consideration by the 85th Texas Legislature in February 2017. The Sunset Advisory Commission determined that no major structural changes to the RRCT or its name were needed. Instead, the report issued in January 2017 focused on improving the RRCT's oil and gas enforcement programs. The resulting legislation, HB 1818, was passed by the 85th Legislature and signed into law by Governor Abbott in May 2017.

**Wholesale Market Design Developments...**On December 1, 2010, ERCOT transitioned from a zonal market design to a nodal market similar to those in Midwest Independent System Operator ("MISO"), Pennsylvania, New Jersey, Maryland Independent System Operator ("PJM"), New York Independent System Operator ("NYISO"), and the New England Independent System Operator.

In 2011, the ERCOT market saw significant weather events. The first event, consisting of extreme cold weather, occurred on February 2 and continued through that week. ERCOT had between 8,000 and 12,000 MW of generation trip off-line due to extreme cold weather. As a result of lost generation, ERCOT was forced to shed firm load resulting in mandatory investigations. Regulatory authorities, including NERC, conducted reviews of these events. Following the February 2, 2011 event, both regulatory and market design changes were implemented. The market design changes consisted of: 1) changing the reporting timeline for resource outages; 2) changing the dispatch sequence for Emergency Response Service ("ERS"); 3) changing the Energy Emergency Alert process to allow ERCOT to facilitate ERCOT communications with Qualified Scheduling Entities during emergencies; and 4) changes to the Black Start (power restoration) processes. Regulatory actions centered around: 1) recognizing the value of effective communication and action between the PUCT, the Texas Commission on Environmental Quality ("TCEQ"), and the RRCT; 2) hiring a contractor to study and report on generators, preparedness for cold weather events; and 3) improving communication between ERCOT and public officials and decision makers.

The second weather event experienced in the ERCOT wholesale market was the extreme high temperatures during June, July, and August of 2011 and accompanying drought. The market experienced over 70 consecutive days with temperatures over 100 degrees Fahrenheit. During this time period ERCOT came close to shedding firm load for capacity insufficiency. Prices during the daily peaks hit \$3,000 per MWh for sustained periods. Several market design changes were discussed to improve the market in these resource-constrained periods and, as hereafter described, have been implemented.

Specifically, in response to concerns about capacity reserves and the need to provide incentives for investment in new generation resources, the PUCT has initiated two rulemaking proceedings addressing resource and reserve adequacy and shortage pricing. The first proposal (in PUCT Docket 40268) amended an existing rule relating to the scarcity pricing mechanism by increasing high and low system offer caps and the peaker net margin. A second rule (in PUC Docket 37897) was adopted on July 3, 2012 allowing resources to offer energy and ancillary services in the ERCOT market at a cap of \$4,500 per MWh and \$4,500 per MWh beginning August 1, 2012 through the effective date of any amendment to the high system-wide offer cap in rulemaking proceeding 40268. Through the rulemaking comment process, the PUCT would explore whether the proposed changes would have the desired effect on resource adequacy and what effect the changes will have on the financial exposure of market participants, among other issues. On June 1, 2012, the PUCT and ERCOT commissioned the Brattle Group to examine the capacity shortage issue. The Brattle Report concluded that the existing market design supports about an 8% reserve margin and that the energy only approach (even if modified) supports, on average, a 10% reserve margin. In response the PUCT took action to determine: a) what is the appropriate reserve margin; b) is the reserve margin a target or a minimum requirement; and c) what is the best market design to achieve the answers to a) and b). On October 25, 2012, the PUCT voted to double the cap on wholesale electricity prices over the next three years. The maximum wholesale rate rose from \$5,000 per MWh to \$7,500 per MWh in June 2014 and rose to \$9,000 per MWh in June 2015. The PUCT consolidated its resource adequacy activities under a new docket in the Fall of 2012 - PUCT Docket 40000.

In Docket 40000 the PUCT went back to the Brattle Group to study the economically optimal reserve margin in ERCOT. In January of 2014 Brattle reported the economically optimal reserve margin to be 10.2%. Brattle further concluded that the existing market design supported a reserve margin of 11.5%. Both of these numbers are compared to a reserve margin of 14.1% to cover one loss of load event in ten years. In May 2017, ERCOT updated its Capacity Demand Reserves ("CDR") report showing reserves projected to be 18.9% for summer 2018. The reserve margin drop from the December 2016 CDR reflects delays in forecasted commercial operation dates beyond 2018 for several generation projects. Margins for the subsequent three years continue to exceed 18%. Seguin will monitor these proceedings closely to assess the effect of the new regulations on its business.

In order to improve scarcity price signals, the PUCT instructed ERCOT to implement an Operating Reserve Demand Curve ("ORDC") in June 2014. The ORDC is currently operational as an energy price enhancement mechanism that adds to the energy price based on system conditions. ERCOT calculates the adder based on the probability of a loss of load and the cost of a loss of load. Therefore, as systems reserves drop the adder calculated by ERCOT increases and the price of energy increases. The ERCOT market has not experienced any significant security events since the implementation of ORDC; however, the mechanism is expected to improve scarcity price signals but has also induced additional volatility into the ERCOT electricity market.

The 82nd Legislature passed SB 1613, which modifies the competitive matters exemption in the Public Information Act for public power utilities concerning public power "competitive matters". SB 1613 updates the existing law based on a decade of experience with competitive electricity markets. It continues to allow Seguin and other MOUs to protect "competitive matters" from disclosure under the open meetings and open records laws. SB 1613 protects the consumers of MOUs because their utility can participate in wholesale electric markets without being disadvantaged.

**Environmental Restrictions of Senate Bill 7 and Other Related Regulations...**SB 7, enacted in 1999, contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the TCEQ permitting

program by virtue of “grandfathered” status. Under SB 7, annual emissions of nitrogen oxides (“Nox”) from such units were reduced by 50% from 1997 levels, beginning May 1, 2003.

SB 7 established the State’s goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities. This timing difference poses a dilemma for planning, as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 (“SB 20”), authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify an area with sufficient renewable energy potential, known as competitive renewable energy zones (“CREZs”) and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle. In August 2008, the PUCT further decided that an additional 18,456 MW of wind energy from the five CREZs would be delivered into ERCOT via transmission lines estimated to cost ERCOT rate payers a minimum of \$4.93 billion. The PUCT awarded the construction of those transmission lines to transmission service providers (“TSPs”) in whose service areas the lines will be located and new entrants seeking to become TSPs. The PUCT’s decision was appealed by the City of Garland, and a State District Court has determined that the PUCT should have given municipally owned utilities consideration in the CREZ award process. The PUCT reconsidered and awarded a CREZ line for the City of Garland to construct.

The Legislature increased the State’s renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State.

According to ERCOT, about 20% of the electricity generated in Texas during calendar year 2016 came from wind energy resources, up from 11.7% for all of 2015. The total capacity of renewable facilities in Texas as of May 2017 is approximately 18,787 MW which exceeds the 5,256 MW January 1, 2013 goal specified in the PUCT Substantive Rule 25.173 - Goal for Renewable Energy and is above the January 1, 2025 “target” of 10,000 MW wind generation. On March 31, 2017, wind generation in ERCOT produced a new record of 16,141 MW. ERCOT’s wind penetration record was set on March 23, 2017, at 50% of load.

**Electric Distribution**

The City Peak Electrical use for 2017 was 81.29 MW and by 2019 it is projected to hit 93 MW. The City continues to grow in residential and commercial.

The Electric Department is currently working on a number of projects for the 2016/17 capital improvements budgets.

1. Working on 4 underground circuits coming out of Seguin West.
2. Upgrading TWACS for Substations communications.
3. Working on ESRI mapping, work orders and mobile orders and trying to tie in with Tyler.
4. Jefferson St pole replacement.
5. 3 Phase Underground project Stremple Road.
6. Distribution System Capacitors.
7. Star Meter MTU / twacs Conversion.
8. Fiber to 3-Substations.

**10 Largest Electric Customers<sup>1</sup>**

<u>Name</u>	<u>Type of Entity</u>	<u>kWh Sales</u>	<u>Revenues</u>
Niagara Bottling LLC	Manufacturing	30,146,400	\$2,437,321
Tyson	Chicken Processing Plant	22,755,600	1,827,865
Seguin ISD	School District	12,137,457	1,223,693
Texas Lutheran University	University	12,634,607	1,042,279
Hexcel Corp/Post Petition	Manufacturing	12,081,600	982,918
Guadalupe Regional Medical Center	Hospital	10,651,221	923,007
Mini-Grip	Manufacturing	9,559,900	763,291
Guadalupe County	County	7,007,590	658,746
Wal-Mart	Retail Sales	4,585,000	414,346
HEB	Retail Sales	4,303,000	383,180

<sup>1</sup> October 2016 - September 2017.

**kWh Energy Analysis**

<u>Year</u>	<u>kWh Purchased</u>	<u>Growth</u>	<u>kWh Consumption</u>	<u>Growth</u>	<u>Customer Count</u>	<u>Growth</u>
2003-04	271,220,166	-2.15%	254,848,859	-1.7%	7,824	0.4%
2004-05	284,655,929	4.95%	271,525,856	6.5%	7,903	1.0%
2005-06	288,134,848	1.22%	273,368,582	0.7%	7,921	0.2%
2006-07	287,444,316	-0.24%	271,933,622	-0.52%	7,933	0.2%
2007-08	297,724,158	3.58%	282,241,983	3.79%	8,051	0.4%
2008-09	292,408,513	-1.79%	277,042,385	-1.84%	8,014	-0.5%
2009-10	302,100,002	3.31%	282,102,433	1.83%	8,011	0.0%
2010-11	310,175,128	2.67%	293,799,122	4.15%	8,210	3.4%
2011-12	306,960,799	-1.04%	281,673,636	-4.13%	8,247	0.5%
2012-13	335,747,515	9.38%	283,520,517	.66%	8,293	0.6%
2013-14	344,327,169	2.56%	287,631,799	1.45%	8,340	0.6%
2014-15	305,143,171	-11.38%	269,528,056	-6.29%	8,500	1.9%
2015-16	297,035,140	-2.66%	282,255,073	4.72%	8,438	-0.7%
2016-17	329,736,280	10.77%	313,410,061	11.04%	8,549	1.19%

**Electric Sales and Peak Demand**

<u>Year</u>	<u>kWh Sales</u>	<u>Revenues</u>	<u>Peak Demand (kWh)</u>
2004-05	271,525,856	\$18,837,026	60,166
2005-06	273,368,582	23,610,394	59,300
2006-07	271,933,622	23,337,950	64,180
2007-08	282,241,983	25,747,926	57,924
2008-09	277,042,385	28,210,092	59,461
2009-10	282,102,433	26,446,221	64,000
2010-11	293,799,122	26,804,696	66,000
2011-12	281,673,636	25,975,472	62,000
2012-13	283,520,517	25,448,070	63,000
2013-14	287,631,799	25,852,212	68,000
2014-15	269,528,056	26,747,282	68,000
2015-16	282,255,073	27,334,190	70,230
2016-17	313,410,061	29,730,883	81,287

*Note: Data on Peak Demand furnished by LCRA.*

**Electric Rates (Effective October 1, 2014)**

***Residential Electric - RES:*** *Applicable to individually metered residential dwellings.*

Applicable to individually metered residential dwellings.

Customer Charge, per meter:	\$12.00
Energy Charge per kWh:	\$.0325
PCRF Charge per kWh:	\$.0625

***Small Commercial - SCS:*** *Applicable to non-residential customers or multiple dwelling unit residential customers billed through one meter and whose peak demand does not exceed 25 KW.*

Customer Charge, per meter:	\$25.00
Energy Charge per kWh:	\$.0295
PCRF Charge per kWh:	\$.0625

***Large Power Commercial - LPS:*** *Applicable to non-residential customers whose peak KW is between 25 and 500.*

Customer Charge, per meter:	\$75.00
SECONDARY Customer Energy Charge per kWh:	\$.0275
SECONDARY Customer Demand Charge per KW:	\$2.00
PCRF Charge per kWh both SECONDARY & PRIMARY:	\$.0625
PRIMARY Customer Energy Charge per kWh:	\$.026675
PRIMARY Customer Demand Charge per kWh:	\$1.94

**Large Power Industrial - IND:** *Applicable to non-residential customers whose peak KW is greater than 500.*

Customer Charge, per meter:	\$200.00
SECONDARY Customer Energy Charge per kWh:	\$.013
SECONDARY Customer Demand Charge per KW:	\$3.00
PCRF Charge per kWh both SECONDARY & PRIMARY:	\$.0625
PRIMARY Customer Energy Charge per kWh:	\$.011
PRIMARY Customer Demand Charge per KW:	\$3.00

**SECURITY LIGHTS**

100 watt lamp per month:	\$ 7.25
150 watt lamp per month:	\$11.03
1500 watt lamp per month:	\$52.00
Setup fee for 100 or 150 watt lamps:	
Existing Pole	\$100.00
Wood Pole installation	\$250.00
Steel or Composite Pole	Actual Cost
Setup fee for 1500 watt lamps:	
Existing Pole	\$430.00
Wood Pole installation	\$580.00
Steel or Composite Pole	Actual Cost

**Rio Nogales Power Project**

The commercial operation of the Rio Nogales Power Project commenced on June 1, 2002. This electric power plant is located in the Seguin Industrial Park and was developed by Constellation Power Source, a wholly owned subsidiary of Baltimore Gas & Electric. On December 15, 2006 the ownership interest in Rio Nogales was acquired by an affiliate of Tenaska Power Fuel, LP from Constellation. On April, 2012, the ownership interest in Rio Nogales was acquired by City Public Service of San Antonio (“CPS Energy”). As part of this acquisition, CPS Energy made a significant cash contribution to CSU. The plant is a state-of-the-art, highly efficient power generation facility utilizing clean burning natural gas. The project is an 800 MW natural gas fired combined cycle power plant.

**WATER PLANT AND DISTRIBUTION SYSTEM**

The Seguin’s Surface Water Treatment Plant has a peak production capacity that exceeds 11.635 million gallons per day with an additional allotment per contract of 7.3 million gallons of groundwater per day that may be purchased from the Schertz-Seguin Local Government Corporation.

The Seguin distribution system is supported by a three million, two million and two seventy thousand gallons ground storage tank with three hundred twenty thousand gallons in storage at the clear well. This is enhanced by the addition of four elevated storage tanks, three with a capacity of one million gallons each, one with a capacity of five hundred thousand gallons.

The City water customers are classified into commercial and residential. Both residential and commercial inside classifications have shown a growth through the years.

The Texas Commission on Environmental Quality has authorized the City to divert and use an amount of water not to exceed 7,000 acre-feet (2,280,957,000 gallons) annually from the impoundment reservoir (Lake Seguin) maintained for municipal purposes in and around the City. The City has also entered into a contract with the Guadalupe-Blanco River Authority to purchase 1,000 acre-feet of water from Canyon Lake per year. This supply was purchased to ensure that the City would have ample supply of water during drought conditions.

**WATER AND SEWER PROJECTS**

Seguin completed the construction of several major water and sewer improvement projects during Fiscal Year 2014-15. The projects are part of the Utility Capital Projects as set by City Council or Utility System Revenue Bonds. Following is a list of some of those projects:

Booster Pump Station.

Rehabilitation of 12 dual filters.



**Classification of Customers**

<u>Year</u>	<u>Residential Inside</u>	<u>Residential Outside</u>	<u>Commercial Inside</u>	<u>Commercial Outside</u>
2006	5,636	149	1,087	2
2007	5,658	149	1104	2
2008	5,679	151	1,116	2
2009	5,869	5	1,170	2
2010	5,847	4	1,167	2
2011	5,864	4	1,199	2
2012	5,896	4	1,204	2
2013	5,911	4	1,199	2
2014	5,951	1	1,184	2
2015	6,007	0	1,250	0
2016	6,093	0	1,274	0
2017	6,176	0	1,276	0

**Water Rates (Effective October 1, 2018)**

**Residential:**

Capacity Charge	\$22.75
1 - 10,000 gallons used	\$ 3.96 (per 1,000 gal)
10,001 - 35,000 gallons used	\$ 4.52 (per 1,000 gal)
35,000 and above gallons used	\$ 5.09 (per 1,000 gal)

**Commercial, Industrial, Governmental, and Multi-Family:**

Capacity Charge	\$49.09
First 12,000,000 gallons used (per 1,000 gal)	\$ 4.49
All additional gallons used (per 1,000 gal))	\$ 3.83

**INDUSTRIAL SURFACE WATER (Effective October 1, 2018)**

Capacity Charge per meter	\$49.09
All gallons used	\$ 3.37 (per 1,000 gal)
If ground water has to be used	\$ 3.83 (per 1,000 gal)

**Historical Water Consumption**

<u>Gallons</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Yearly Use	1,973,940,947	2,093,764,881	2,101,380,329	2,103,558,145	2,285,596,000
Daily Average	5,408,057	5,736,342	5,757,206	5,763,123	6,261,907
Daily Maximum	6,789,564	6,726,582	6,529,826	6,612,816	7,206,000
	09/30/13	09/30/14	09/30/15	09/30/16	09/30/17

**Top Ten Water Customers**

Twelve Month Period (10-01-16 thru 10-31-17)

Name	Gallons Used (1,000)	Water Revenues
Tyson	334,937,070	\$1,066,265
Niagra Bottling, LLC	263,676,932	936,897
Texas Lutheran University	40,793,890	187,276
Guadalupe Regional Medical	27,375,587	121,045
Continental Automotive Sys Inc	22,855,500	97,723
Seguin ISD	18,413,775	97,663
Guadalupe County Admin	17,335,050	82,186
Stone Ranch Townhomes	12,697,000	54,924
MA Ranch @ Seguin LLC	11,554,500	54,346
San Antonio City Public Service - Potable Water	476,243,479	\$1,557,717
San Antonio City Public Service - Reuse Water	174,971,778	\$ 319,452

**WASTEWATER PLANT**

The Walnut Branch Treatment Plant is an activated aeration type plant. The design capacity of the Walnut Branch Wastewater Treatment Plant is 4.9 MGD and its present daily average and peak flows are: 3.39 MGD (average) and a 2 hour peak load of 12 MGD. See discussion under “WATER PLANT AND DISTRIBUTION SYSTEM - Water and Sewer Projects” herein. Units at the facility are as follows:

- Head Works (Lift Station, Manual Bar Screen, Mechanical Screen)
- Two Primary Clarifiers
- Aeration Basin
- Three Final Clarifiers
- Chlorine Contact Basin
- Drying Beds
- Dechlorination System

Present influent and effluent quality is as follows:

	<u>Influent</u>	<u>Effluent</u>	<u>% Removal</u>
BOD	66.65	1.59	97.61%

The Geronimo Creek Treatment Plant is an activated aeration type plant. Its design capacity is 2.13 MGD, a daily average flow of 1.69 MGD, and a 2-hour peak load of 4.2 MGD. Units at the facility are as follows:

- Head Works (Lift Station, Manual Bar Screen, Mechanical Screen)
- Oxidation Channel
- Final Clarifiers
- Chlorine Contact Basin
- Drying Beds
- Dechlorination System

This treatment plant is able to meet its effluent requirements at this time. Present influent and effluent quality is as follows:

	<u>Influent</u>	<u>Effluent</u>	<u>% Removal</u>
BOD	106	1.965	98.15%

**SEWER RATES: (effective October 1, 2018)**

**Residential:**

Up to the first 2,000 Gallons of water used	\$28.96
The next 6,000 gallons used	\$ 4.34 (per 1,000 gal)
Max charge for 8,000 gallons of water used)	\$55.00
Fixed sewer fee for wastewater service only and no metered water	\$37.74

**Commercial and Industrial:**

Capacity Charge	\$47.77
First 8,000,000 gallons of water used	\$ 4.47 (per 1,000 gal)
All additional gallons used	\$ 3.49 (per 1,000 gal)
Fixed sewer for wastewater service only and no metered water	\$37.74

**Industrial User Charge and Fee:**

Permit Fee for all Commercial & Industrial users	\$4.00/month
Permit Fee for all discharge to the POTW (per 1,000)	\$ .06
Based on water usage monthly above 200,000 gallons of water per month or document of metered discharge	

**Industrial User Metered Sewer:**

Capacity Charge	\$47.77
First 8,000,000 gallons of water used	\$ 4.34 (per 1,000 gal)
All additional gallons used	\$ 3.31 (per 1,000 gal)

**Solid Wastewater Services:** Garbage Effective October 1, 2017  
Recycling Effective October 1, 2017

Each residential account has one garbage container	\$13.91
Each additional container	\$ 6.20
Each residential account has one recycle container	\$ 3.11

**SALES TAX:**

Charged to non-residential customers for electric and to residential customers for garbage and recycling:

State Sales Tax	6.25%
City Sales Tax	1.50%
County Sales Tax	<u>.50%</u>
Total Sales Tax	8.25%

**Top Wastewater Customers**

Twelve Month Period (10-01-16 thru 9-30-17)

<u>Name</u>	<u>Gallons Used (1,000)</u>	<u>Revenues</u>
Niagra Bottling LLC	87,907,927	\$ 302,274
TLU	29,497,290	127,166
Guadalupe Regional Medical Center	26,270,087	107,860
Guadalupe Co Admin	17,073,000	74,854
Seguin ISD	10,789,268	56,514
Stone Ranch Townhomes	11,605,000	46,881
Summers Bend Apts	10,380,000	41,835
Hexcel	8,035,000	32,417
METERED SEWER		
Tyson	287,003,899	855,314
CPS Energy	71,628,141	301,552

## ENVIRONMENTAL MATTERS

The City is very aware and concerned about the potential impact that a utility operation can have on the environment. The City is continually and aggressively pursuing total environmental compliance. The utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the City's units in operation, or any that may be constructed by the City or for the use of the City, will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits.

The City is in full conformance with the regulations as they are adopted. The TCEQ has also given the City a "superior" rating of its water systems. TCEQ and EPA required an industrial pretreatment program that has been developed for industrial wastewater discharges. This program requires testing and city inspection of industrial user's to ensure compliance of the permit issued by the city to the affected industry.

**APPENDIX C**

**General Purpose Financial Statements for the City of Schertz, Texas  
for the Fiscal Year Ended September 30, 2017**

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CITY OF SCHERTZ, TEXAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED SEPTEMBER 30, 2017



**OFFICIALS ISSUING REPORT**

Brian James  
Acting City Manager  
  
James Walters  
Director of Finance

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March 6, 2018

To the Honorable Mayor, City Council, and the Citizens of City of Schertz:

State law requires that local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and audited in accordance with generally accepted auditing standards in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Schertz for the fiscal year ended September 30, 2017.

## INTRODUCTORY SECTION

This report consists of management's representations concerning the finances of the City of Schertz. Consequently, 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, management of the City of Schertz has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Schertz's financial statements in conformity with U.S. GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Schertz comprehensive framework of internal controls 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.

The City of Schertz's financial statements have been audited by Armstrong, Vaughan & Associates P.C, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Schertz 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 statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Schertz's financial statements for the fiscal year ended September 30, 2017, are fairly presented in conformity with U.S. GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires 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 complement MD&A and should be read in conjunction with it. The City of Schertz's MD&A can be found immediately following the report of the independent auditors.

### Profile of the Government

The City of Schertz, incorporated in 1958, is located in the central part of Texas, which is considered to be a top growth area in the state, and one of the top growth areas in the country. The City of Schertz currently occupies a land area of 32.21 square miles with a population of 39,453 in 2016 according to the US Census Bureau. The City of Schertz is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body.

The City of Schertz has operated under the council-manager form of government since November 30, 1972. Policymaking and legislative authority are vested in a City Council consisting of the Mayor and seven at-large councilmembers. The City Council is responsible for establishing public policy on City matters by the passage of appropriate ordinances and resolutions. The City Manager is responsible for overseeing the day-to-day operations of the government, implementing policy established by City Council, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve three-year staggered terms, with two council members elected every three years and then three council members elected the final three years in the cycle. The mayor is elected to serve a three-year term. The mayor and all seven council members are elected at large.

The City of Schertz provides a full range of services, including police and fire protection, EMS services, the construction and maintenance of streets, recreational facilities, cultural events, water and sewer services.

The annual budget and five-year forecast serve as the foundation for the City of Schertz's financial planning and control. All city departments are required to submit requests for appropriation to the City Manager by June of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents the proposed budget to the council for review in early August. The council then holds public hearings and community meetings on the proposed budget and to adopt a final budget by September 30<sup>th</sup>. The fiscal year for Schertz is from October 1 through September 30. The appropriated budget is prepared by each department (e.g. police). The City Manager may make transfers of appropriations within a department. The City Manager may make transfers between departments and funds with City Council approval. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on pages 60-63 as part of the required supplementary information.

#### 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 the City of Schertz operates.

#### **Local economy.**

Economic growth in Schertz remained strong in 2017. As of September, the Federal Reserve Bank of Dallas reported that the San Antonio Business-Cycle Index, of which Schertz data is incorporated, was 5.4 percent in October 2017 which is above the long term growth average of 3.1 percent showing strong growth is continuing in the area. The increase was due to a 3.9 percent increase in job growth in the metro area helping to maintain the **unemployment rate at 3.8 percent**, which is the lowest rate since the data began in 1975.

The City of Schertz realized **0.5% percent year-over-year decrease in sales tax collection** during the fiscal year. The decrease was a result of two audit adjustments by the State Comptroller's Office, one during FY 2015-16 and one during FY 2016-17. The September 2016 deposit included an additional \$177,435.53 owed to the City of Schertz from the State Comptroller's Office while April 2017 saw a withdrawal of \$167,973.47 for payments improperly granted to the City of Schertz by the State. These two audit adjustments were unrelated. Without these two adjustments, sales taxes would have grown by 2% instead.

During the 2017 calendar year, there were three major construction projects completed in Schertz. Each of the projects were built as speculative projects to help absorb increased demand for industrial space within the San Antonio market. The projects included: 9850 Doerr Lane (215,000 square feet), 7377 Doerr Lane (147,499 square feet), and 6729 Guada-Coma Drive (60,700 square feet). Currently those new constructions are 10% occupied. According to the 2017 Q4 Xceligent Market Report, the Far North East market has a total vacancy rate of 13.8 percent, up from 10.6 percent for the previous quarter. Despite the increased supply, average asking rates continue to increase by \$0.27 to \$5.28 NNN.

**Long-term financial planning.** The community approved bond propositions in November 2010 for quality of life projects which included an aquatics facility, improvements to the baseball fields and soccer fields, building a new animal adoption facility, and improvements to Main Street. The only remaining project are the Main Street improvements. Construction was completed for the aquatic facility in January 2017 while the Main Street improvements continue to be developed.

In November 2015, the City placed 2 bond propositions before the voters totaling \$15 million. \$7 million was for FM road ways which the City will partner with the Texas Department of Transportation, who will provide matching funds, and \$8 million for a new Fire Station located in the southern portion of Schertz. In June 2017, the second \$4 million was issued for the Fire Station to begin construction. Currently the Fire Station is estimated to be completed in 2019.

**Current Year Budget Initiatives.** In FY 2016-17, the City's main initiatives that had a major budget impact were the implementation of the second-year recommendation of the Classification and Compensation Study to bring the wages up to a more competitive level, hiring 3 additional Fire Fighters that will be needed with the opening of Fire Station #3, and opening the new Aquatics Facility. The City also performed its first citizen satisfaction survey which will provide valuable insight for the FY 2017-18 Budget. FY 2016-17 also saw a grant award by the State for additional trail connections and sidewalks throughout the City. Estimated benefit to the City will be \$800,000 received for the \$1,000,000 project.

#### Financial Information:

**Internal Control.** Management is responsible for establishing and maintaining internal controls designed to ensure that assets of the City are protected from loss, theft or misuse and to provide adequate accounting information compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). The internal control system is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of an internal control should not exceed the benefits derived from the internal control. The City utilizes financial accounting software which is designed with a system of internal controls. These controls are continually being reevaluated to provide reasonable, but not absolute, assurances.

**Budget Controls.** The City also utilizes budgetary controls. Legally expenditures cannot exceed the appropriated amount. The objective of these budgetary controls is to ensure compliance with the adopted budget approved by the City Council as mandated by the city charter and state law. The levels of budgetary control are established at the line-item basis and at the fund level. Staff believes these controls help monitor and direct approved expenditures to a level within the budget parameters which directly results in a strong financial performance.

**Financial Results.** Assets and fund balances continue to grow as the City grows and financial results remain strong. While additional debt was issued during the year, Staff closely monitors and plans the amount of issuance to keep steady debt ratios per capita, per revenue, and per operations tax rate to the debt tax rate. Examples of these ratios can be found in the Statistical Section on pages 109, 110 and 104. A more detailed summary of the City's Financial Performance is available in the Management Discussion and Analysis section on page 5.

**Independent Audit.** An independent audit is performed every year of the general ledger, accounts, financial records, and transactions of all city departments. The audit is completed by an independent certified public accounting firm selected by the City Council. The City is in compliance with this requirement and the independent auditor's report by Armstrong, Vaughan, & Associates P.C. Certified Public Accountants, has been included in this report.

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 the City of Schertz for its comprehensive annual financial report for the fiscal year ended September 30, 2016. This was the 32nd consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City 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 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 finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

In conclusion, we would have none of the success we have enjoyed without the assistance of each and every staff member, as well as the support and strategic direction from the Mayor and the City Council during the strategic planning, pre-budget, and budget approval process.

Respectfully submitted,



Brian C. James  
Acting City Manager



James P. Walters  
Finance Director

CITY OF SCHERTZ, TEXAS

CITY OFFICIALS

MAYOR

MAYOR PRO-TEM

CITY COUNCIL

MICHAEL CARPENTER  
CEDRIC EDWARDS, SR.

MARK DAVIS  
RALPH GUTIERREZ

SCOTT LARSON  
ROBIN THOMPSON

ANGELINA KISER  
BERT CRAWFORD

JOHN KESSEL

JAMES WALTERS

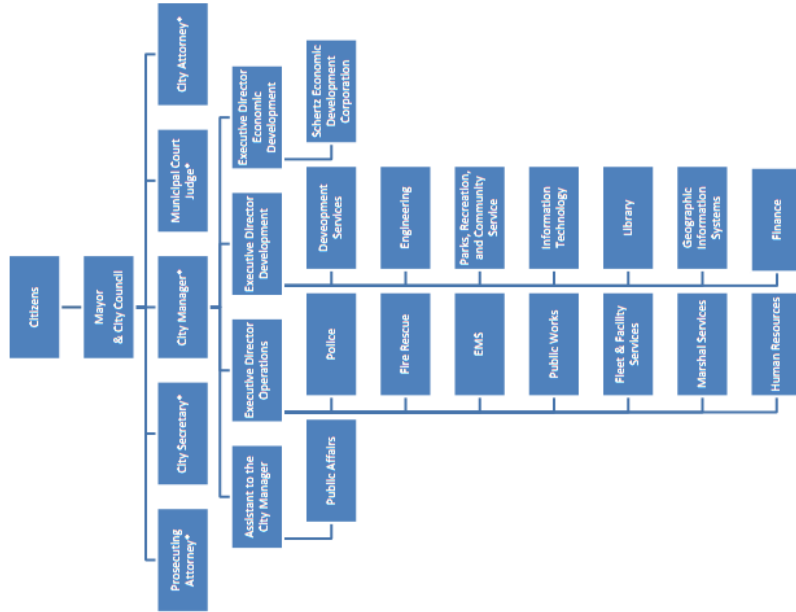
CHARLES ZECH  
DENTON, NAVARRO, ROCHA, BERNAL, HYDE & ZECH, P.C.

CITY MANAGER

DIRECTOR OF FINANCE

CITY ATTORNEY

**CITY OF SCHERTZ  
ORGANIZATIONAL CHART**



\*Appointed by City Council



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to  
**City of Schertz  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2016**

*Christopher P. Morill*  
Executive Director/CEO

Nancy L. Vaughan, CPA  
Deborah F. Fraser, CPA  
Phil S. Vaughan, CPA



Armstrong, Vaughan e<sup>2</sup> Associates, P.C.  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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

### FINANCIAL SECTION

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

941 West Byrd Blvd., Suite 101 • Universal City, Texas 78148  
Phone: 210-658-6229 • Fax: 210-659-7611 • Email: info@avacpa.com • www.avacpa.com

### **Opinions**

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

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liabilities and related ratios and the schedule of contributions, as listed in the table of contents, 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. The budgetary comparison information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. We have applied certain limited procedures to 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 management's discussion and analysis, budgetary comparison information, and schedule of changes in net pension liabilities and related ratios and the schedule of contributions 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 City of Schertz's basic financial statements. The comparative financial statements, combining and individual nonmajor fund financial statements, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative financial statements and combining and individual nonmajor fund financial statements 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 comparative, combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018 on our consideration of City of Schertz's 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 City of Schertz's internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

March 6, 2018

## MANAGEMENTS DISCUSSION AND ANALYSIS

As management of the City of Schertz, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Schertz for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

### Financial Highlights

The assets of the City of Schertz exceeded its liabilities at the close of the most recent fiscal year by \$197.8 million (net position). Of this amount, \$23.0 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position increased by \$24.3 million. A significant portion of this increase, 66.4%, is attributable to capital contributions from developers.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$49.1 million, an increase of \$10.1 million in comparison with the prior year.

At the end of the fiscal year, the combined total of the General Fund assigned and unassigned fund balances was \$10.8 million which is 45.5% of the general fund expenditures not including capital outlay. The fund balance policy is to reserve a 26% balance.

During the fiscal year, the City issued \$9.41 million in general obligation bonds and certificates of obligation of which \$540,000 is allocated to the proprietary fund.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Schertz that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Schertz include general government, public safety, streets and parks, health, and culture and recreation. The business-type

activities of the City of Schertz include a water and sewer department and an emergency medical services department.

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

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

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

The City of Schertz maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the economic development corporation and the capital projects fund, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer department and for the emergency medical services department, both of which are considered to be major funds of the City of Schertz.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's general fund budgetary schedule. The City of Schertz adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The economic development corporation also adopts an annual budget, and a comparison schedule for it also is provided in the required supplementary information.



The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Schertz, assets exceeded liabilities by \$197.8 million at the close of the most recent fiscal year.

The largest portion of the City's total net position (78%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding, plus bond proceeds that have not yet been signed. The City of Schertz uses these capital assets to provide services to citizens; consequently, these assets are not available for operational type of future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's total net position (10.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$23.0 million, may be used to meet the government's ongoing obligations to citizens and creditors.

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

TABLE A-1  
NET POSITION

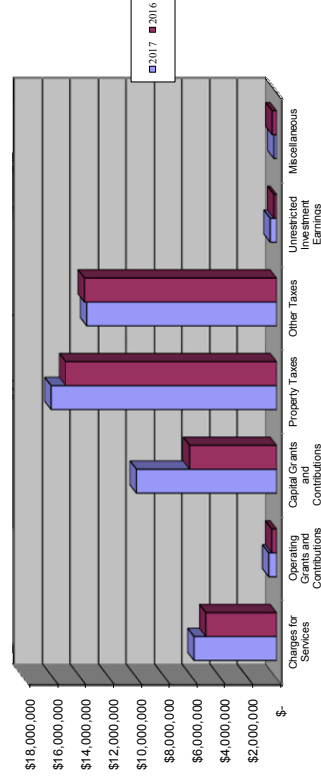
	Governmental Activities			Business-Type Activities			Total
	2017	2016	2015	2017	2016	2015	
Current and Other Assets	\$ 53,489,898	\$ 45,626,048	\$ 34,305,074	\$ 28,142,800	\$ 87,794,972	\$ 73,768,848	\$ 206,356,784
Capital Assets	133,989,421	125,109,658	75,578,798	71,023,364	209,568,219	196,133,022	509,313,442
Total Assets	187,479,319	170,735,706	109,883,872	99,166,164	297,363,191	269,901,870	715,670,326
Deferred Outflows	3,637,434	3,985,590	997,659	1,082,823	4,635,093	5,068,413	10,308,079
Current Liabilities	7,331,101	9,650,691	5,029,905	4,646,767	12,361,006	14,297,458	26,656,927
Long-Term Liabilities	76,793,511	71,506,935	14,709,300	15,654,519	91,502,811	87,161,454	175,167,785
Total Liabilities	84,124,612	81,157,626	19,739,205	20,301,286	103,863,817	101,458,912	202,626,702
Deferred Inflows	344,220	-	-	-	344,220	-	344,220
Net Investment in Capital Assets	84,537,238	74,237,004	70,361,035	64,210,231	154,898,273	138,447,235	368,393,816
Restricted	20,437,116	17,095,325	-	-	20,437,116	17,095,325	37,532,441
Unrestricted	1,673,567	2,231,341	20,781,291	15,737,470	22,454,858	17,968,811	43,734,267
Total Net Position	\$ 106,647,921	\$ 93,563,670	\$ 79,947,701	\$ 91,142,326	\$ 197,790,247	\$ 173,511,371	\$ 468,353,666

The government's net position increased by \$24.3 million during the current fiscal year. Sixty-six percent of this increase represents capital contributions from developers. The following table indicates changes in net position for governmental and business-type activities followed by graphs displaying total revenues and expenses by type.

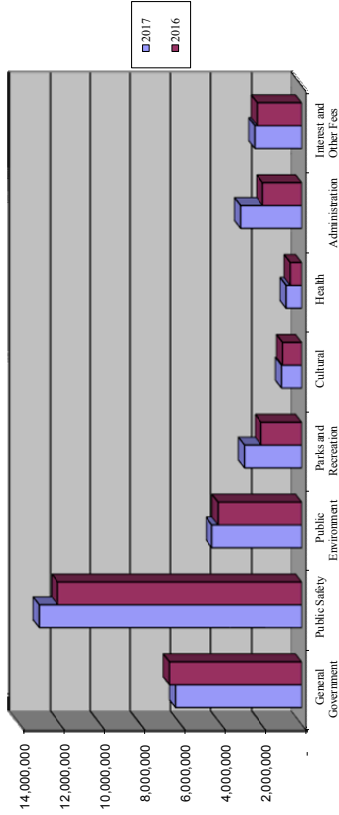
TABLE A-2  
CHANGES IN NET POSITION FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

	Governmental Activities			Business-Type Activities			Total
	2017	2016	2015	2017	2016	2015	
Revenues:							
Program Revenues:							
Charges for Services	\$ 5,910,899	\$ 5,067,903	\$ 3,175,607	\$ 27,925,017	\$ 37,668,506	\$ 33,992,920	\$ 76,997,342
Operating Contributions	352,878	342,485	-	-	-	-	342,485
Capital Contributions	10,043,483	6,227,664	6,111,474	2,831,126	16,154,957	9,088,790	34,359,910
General Revenues	16,166,006	15,131,997	-	-	16,166,006	15,131,997	31,302,003
Property Taxes	13,595,041	13,760,248	-	-	13,595,041	13,760,248	27,355,292
Other Taxes	448,408	187,847	211,466	102,642	659,874	290,489	1,008,364
Investment Earnings	182,754	309,275	475,733	522,221	658,487	831,496	1,544,230
Miscellaneous	46,899,469	41,027,419	38,556,280	31,381,006	85,455,748	72,408,425	154,350,667
Total Revenues	62,532,926	62,532,926	62,532,926	130,611,200	130,611,200	124,141,968	263,364,168
Expenses:							
General Government	13,061,120	12,141,968	-	-	6,253,926	6,557,778	25,413,816
Public Safety	4,460,540	4,147,653	-	-	4,460,540	4,147,653	8,608,193
Public Environment	2,859,974	2,034,964	-	-	2,859,974	2,034,964	4,894,938
Parks and Recreation	1,004,747	954,871	-	-	1,004,747	954,871	1,959,618
Cultural	776,494	570,204	-	-	776,494	570,204	1,346,698
Health	3,052,102	1,954,276	-	-	3,052,102	1,954,276	5,006,378
Administration	2,355,714	2,240,783	-	-	2,355,714	2,240,783	4,596,497
Interest and Other Fees	-	-	21,346,078	20,249,111	21,346,078	20,249,111	41,595,189
Water and Sewer	-	-	6,006,178	5,004,110	6,006,178	5,004,110	11,010,288
EMS	-	-	27,352,286	25,273,221	27,352,286	25,273,221	52,625,507
Total Expenses	33,824,617	30,602,497	30,602,497	27,352,286	25,273,221	25,273,221	61,788,507
INCREASE IN NET POSITION	28,708,309	31,930,429	31,930,429	103,258,914	105,337,979	98,868,747	201,575,661
BEFORE TRANSFERS	13,074,852	10,424,922	11,204,024	6,107,785	24,278,876	16,532,707	34,316,359
Transfers	9,399	29,211	(9,399)	(29,211)	-	-	(9,399)
CHANGE IN NET POSITION	13,084,251	10,454,133	11,194,625	6,078,574	24,278,876	16,532,707	34,306,960
BEGINNING NET POSITION	\$ 93,563,670	\$ 83,109,537	\$ 79,947,701	\$ 73,869,127	\$ 173,511,371	\$ 156,978,664	\$ 307,800,000
ENDING NET POSITION	\$ 106,647,921	\$ 93,563,670	\$ 91,142,326	\$ 79,947,701	\$ 197,790,247	\$ 173,511,371	\$ 342,106,960

TOTAL REVENUES-GOVERNMENT-WIDE

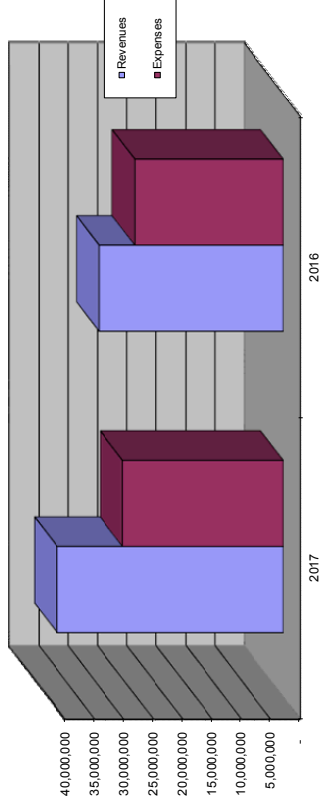


**TOTAL EXPENSES-GOVERNMENT-WIDE**



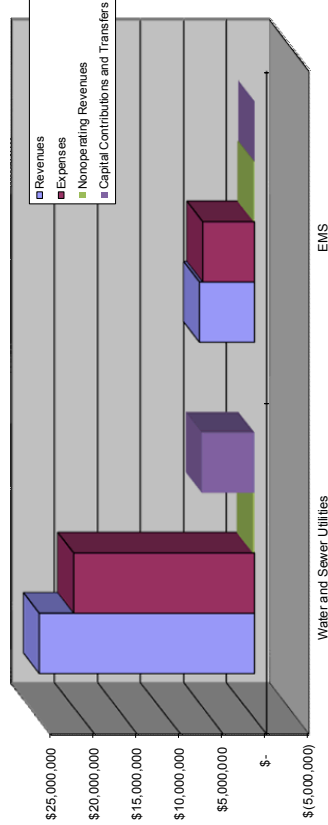
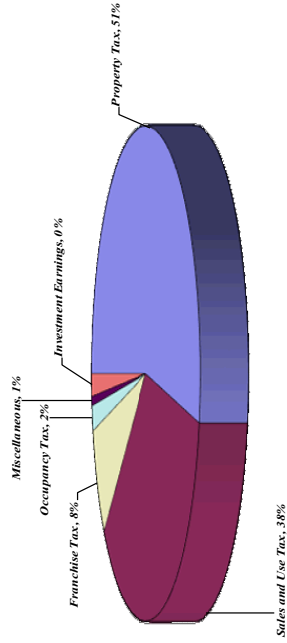
**Business-Type Activities**

Business-Type activities accounted for 45.9% of the growth in the net position of the City of Schertz. Of this increase, 54.6% is the result of capital contributions from developers. For the most part, increases in expenses closely paralleled inflation and the change in revenues was primarily related to fluctuations in capital contributions from developers.



**Revenues-Governmental Activities (Continued)**

**General Revenue by Source – Governmental Activities**



**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$49.1 million. Of this total amount, \$10.0 million constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable, restricted, or assigned to indicate that it is not available for new spending because it has already been committed to pay debt service, for capital improvement projects, and other assigned purposes.

The general fund is the chief operating fund of the City of Schertz. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10.0 million, while total fund balance was \$13.0 million, an increase of \$1.5 million from the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 41.8% of total general fund expenditures, not including capital.

The debt service fund has a total fund balance of \$1.5 million all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$0.1 million.

The capital projects fund has a total fund balance of \$16.9 million, an increase of \$5.3 million. The City issued \$8.87 million in new governmental bonds to supplement capital project activity during the year.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the water and sewer fund at the end of the year amounted to \$20.2 million and those for the Schertz EMS fund amounted to \$1.1 million. The proprietary fund issued \$540 thousand in new bonds to supplement capital project activity during the year.

**General Fund Budgetary Highlights**

The General Fund expenditures were \$939 thousand less than the \$25.5 million budget. This was the result of cost savings across most of the General Fund. Revenues were higher by \$796 thousand than budgeted. Overall, the fund balance increased by \$1.5 million higher than budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$209.6 million (net of accumulated depreciation). Developers contributed \$15.4 million in infrastructure during the year. The City also has several projects in progress from voter approved bonds. Additional information on the City's capital assets can be found in the note 7 to the basic financial statements.

**TABLE A-3  
CAPITAL ASSETS  
(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 7,499,108	\$ 7,499,108	\$ 1,354,138	\$ 1,354,138	\$ 8,853,246	\$ 8,853,246
Water Rights			70,245	70,245	70,245	70,245
Buildings and Improvements and Vehicles	43,677,947	43,607,412	4,660,001	4,660,001	48,337,948	48,267,413
Machinery, Equipment, and Vehicles	10,347,015	9,282,067	5,013,077	5,095,324	15,360,092	14,377,391
Infrastructure	109,303,478	100,003,048	92,807,350	85,890,831	202,110,828	185,893,879
Construction in Progress	13,632,514	9,832,153	2,907,404	2,681,683	16,539,918	12,513,836
Accumulated Depreciation	(50,470,641)	(45,114,130)	(31,233,417)	(28,728,858)	(81,704,058)	(73,842,988)
<b>TOTALS</b>	<b>\$ 133,989,421</b>	<b>\$ 125,109,658</b>	<b>\$ 75,578,798</b>	<b>\$ 71,023,364</b>	<b>\$ 209,568,219</b>	<b>\$ 196,133,022</b>

**Long-Term Debt.** At the end of the current fiscal year, the City of Schertz had total bonded debt outstanding of \$76.7 million. The related principal and interest payment for the bonds are backed by an annual ad valorem tax levied against all taxable property within the City. The City of Schertz maintains a "AA+" rating from Standard and Poors. Additional information on the City's long-term debt can be found in note 10 to the basic financial statements.

**TABLE A-4**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$55,225,000	\$54,995,000	\$ 2,530,000	\$ 3,010,000	\$57,755,000	\$58,005,000
Certificates of Obligation	8,560,000	3,850,000	8,050,000	8,220,000	16,610,000	12,070,000
Tax Notes and Leases	1,230,000	1,740,000	1,065,000	1,360,000	2,295,000	3,100,000
<b>TOTALS</b>	<b>\$65,015,000</b>	<b>\$60,585,000</b>	<b>\$11,645,000</b>	<b>\$12,590,000</b>	<b>\$76,660,000</b>	<b>\$73,175,000</b>

**Economic Factors and Next Year's Budgets and Rates**

At the end of the last fiscal year, the assigned and unassigned fund balance in the general fund increased to \$10.0 million. The City of Schertz has appropriated \$1.5 million of this amount for spending in the 2018 fiscal year budget. The approved tax rate decreased marginally to \$0.4910 per \$100 of valuation. Each year the City updates its five-year budgeting forecast and has implemented a long-term debt model to assist management in making informed financial decisions that will impact the community now and in the future.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Schertz, 1400 Schertz Parkway, Schertz, Texas 78154.

**BASIC FINANCIAL STATEMENTS**

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

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 5,265,632	\$ 2,553,733	\$ 7,819,365
Investments	42,160,733	10,277,545	52,438,278
Receivables (net of allowances)			
Taxes	2,751,714	-	2,751,714
Accounts and Other	1,678,132	5,812,200	7,490,332
Current Service Concession Arrangement Receivable	90,909	-	90,909
Accrued Interest Income	7,949	6,324	14,273
Inventories	98,263	133,430	231,693
Internal Balances	59,044	(59,044)	-
<i>Total Current Assets</i>	<u>52,112,376</u>	<u>18,524,188</u>	<u>70,636,564</u>
<i>Noncurrent Assets:</i>			
Restricted Assets:			
Cash and Cash Equivalents	617,075	1,444,226	2,061,301
Investments	-	14,336,660	14,336,660
Service Concession Arrangement Receivable	760,447	-	760,447
Capital Assets:			
Land	7,499,108	1,354,138	8,853,246
Water Rights	-	70,245	70,245
Buildings and Improvements	43,677,947	4,660,001	48,337,948
Equipment and Vehicles	10,347,015	5,013,077	15,360,092
Infrastructure	109,303,478	92,807,350	202,110,828
Construction in Progress	13,632,514	2,907,404	16,539,918
Accumulated Depreciation	(50,470,641)	(31,233,417)	(81,704,058)
<i>Total Noncurrent Assets</i>	<u>135,366,943</u>	<u>91,359,684</u>	<u>226,726,627</u>
<b>TOTAL ASSETS</b>	<u>187,479,319</u>	<u>109,883,872</u>	<u>297,363,191</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Loss on Debt Refundings	733,620	89,998	823,618
Deferred Pension Related Outflows	2,903,814	907,661	3,811,475
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 3,637,434</u>	<u>\$ 997,659</u>	<u>\$ 4,635,093</u>

See Accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF NET POSITION (CONTINUED)  
SEPTEMBER 30, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>LIABILITIES</b>			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 884,188	\$ 2,094,236	\$ 2,978,424
Accrued Liabilities	654,117	176,160	830,277
Due to Other Governments	119,149	-	119,149
Unearned Revenue	35,346	431,098	466,444
Accrued Interest Payable	445,372	63,571	508,943
Compensated Absences	213,970	62,125	276,095
Customer Deposits	54,200	590,618	644,818
Current Service Concession Arrangement (Liability)	54,153	-	54,153
Current Portion of Long-Term Debt	4,870,606	1,612,097	6,482,703
<i>Total Current Liabilities</i>	<u>7,331,101</u>	<u>5,029,905</u>	<u>12,361,006</u>
<i>Noncurrent Liabilities:</i>			
Compensated Absences	855,879	248,500	1,104,379
Net Other Post-Employment Benefit Payable	506,934	148,821	655,755
Net Pension Liability	12,968,145	4,057,950	17,026,095
Service Concession Arrangement (Liability)	452,983	-	452,983
Long-Term Debt	62,009,570	10,254,029	72,263,599
<i>Total Noncurrent Liabilities</i>	<u>76,793,511</u>	<u>14,709,300</u>	<u>91,502,811</u>
<b>TOTAL LIABILITIES</b>	<u>84,124,612</u>	<u>19,739,205</u>	<u>103,863,817</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Service Concession Arrangement	344,220	-	344,220
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>344,220</u>	<u>-</u>	<u>344,220</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	84,537,238	70,361,035	154,898,273
Restricted For:			
Police and Municipal Court	1,243,281	-	1,243,281
PEG Capital Fees	638,506	-	638,506
Tourism Development	1,503,873	-	1,503,873
Economic Development	15,069,420	-	15,069,420
Parks and Tree Mitigation	699,725	-	699,725
Debt Service	1,087,260	-	1,087,260
Scholarships and Other Purposes	195,051	-	195,051
Unrestricted	1,673,567	20,781,291	22,454,858
<b>TOTAL NET POSITION</b>	<u>\$ 106,647,921</u>	<u>\$ 91,142,326</u>	<u>\$ 197,790,247</u>

See Accompanying notes to basic financial statements.

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

Functions and Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General Government	\$ 6,253,926	\$ 874,737	\$ 189,264	\$ 10,042,931	\$ 4,853,006
Public Safety	13,061,120	4,131,548	210,681	-	(8,718,891)
Public Environment	4,460,540	-	-	-	(4,460,540)
Parks and Recreation	2,859,974	544,460	129,148	-	(2,186,366)
Cultural	1,004,747	330,412	4,144	-	(670,191)
Health	776,494	29,742	19,641	552	(726,559)
Administration	3,052,102	-	-	-	(3,052,102)
Interest	2,355,714	-	-	-	(2,355,714)
<b>Total Governmental Activities</b>	<b>33,824,617</b>	<b>5,910,899</b>	<b>552,878</b>	<b>10,043,483</b>	<b>(17,317,357)</b>
<i>Business-Type Activities</i>					
Water and Sewer	21,346,078	25,390,713	-	6,111,474	10,156,109
EMS	6,006,178	6,366,894	-	-	360,716
<b>Total Business-Type Activities</b>	<b>27,352,256</b>	<b>31,757,607</b>	<b>-</b>	<b>6,111,474</b>	<b>10,516,825</b>
<b>Total Primary Government</b>	<b>\$ 61,176,873</b>	<b>\$ 37,668,506</b>	<b>\$ 552,878</b>	<b>\$ 16,154,957</b>	<b>(6,800,532)</b>
<b>General Revenues:</b>					
Taxes:					
Ad Valorem					16,166,006
Sales					10,844,503
Franchise Fees					2,208,373
Hotel/Motel					499,466
Mixed Drink					42,699
Investment Earnings					211,466
Miscellaneous					475,733
<b>Total General Revenues</b>					<b>687,199</b>
Transfers					9,399
Change in Net Position					(9,399)
Net Position at Beginning of Year					13,084,251
Net Position at End of Year					11,194,625
Net Position at Beginning of Year					93,563,670
Net Position at End of Year					79,947,701
					\$ 91,142,326
					\$ 197,790,247

See Accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
BALANCE SHEET – GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	General Fund	Capital Projects	Debt Service	Economic Development Corporation	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 2,062,393	\$ 1,753,815	\$ 59,148	\$ 893,858	\$ 496,421	\$ 5,265,635
Investments	9,485,725	15,546,171	1,390,934	13,506,156	2,231,747	42,160,733
Receivables (net of allowances)						
Taxes	1,970,300		82,550	665,316	33,548	2,751,714
Accounts and Other	1,677,633			8,448		1,686,081
Inventory	98,263					98,263
Restricted Assets:						
Cash and Cash Equivalents	617,075					617,075
<b>TOTAL ASSETS</b>	<u>\$ 15,911,389</u>	<u>\$ 17,299,986</u>	<u>\$ 1,532,632</u>	<u>\$ 15,073,778</u>	<u>\$ 2,761,716</u>	<u>\$ 52,579,501</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
<i>Liabilities:</i>						
Accounts Payable	\$ 544,406	\$ 267,949	\$ -	\$ 3,940	\$ 67,892	\$ 884,187
Accrued Salaries and Benefits	653,700			417		654,117
Customer Deposits	54,200					54,200
Due to Other Governments	119,149					119,149
Due to Other Funds	(175,084)	116,040				(59,044)
Unearned Revenues	35,346					35,346
<i>Total Liabilities</i>	<u>1,231,717</u>	<u>383,989</u>	<u>-</u>	<u>4,357</u>	<u>67,892</u>	<u>1,687,955</u>
<i>Deferred Inflows of Resources:</i>						
Unavailable Revenues	1,710,054		82,550			1,792,604
<i>Fund Balances:</i>						
Nonspendable:						
Inventory	98,263					98,263
Restricted for:						
Police and Public Safety/Municipal Court	101,842				413,089	514,931
Municipal Court	728,350					728,350
PEG Capital Fees	638,506					638,506
Capital Improvement		16,915,997				16,915,997
Debt Service			1,450,082			1,450,082
Tourism Development						
Parks and Tree Mitigation						
Historical Committee and Library						
Economic Development				15,069,421	77,137	15,069,421
Animal Control	35,660					35,660
Veterans	4,796					4,796
Scholarships	77,458					77,458
Committed for Civic Center/CIED	454,376					454,376
Assigned for:						
Property Replacement	854,198					854,198
Unassigned	9,976,169					9,976,169
<i>Total Fund Balances</i>	<u>12,969,618</u>	<u>16,915,997</u>	<u>1,450,082</u>	<u>15,069,421</u>	<u>2,693,824</u>	<u>49,098,942</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 15,911,389</u>	<u>\$ 17,299,986</u>	<u>\$ 1,532,632</u>	<u>\$ 15,073,778</u>	<u>\$ 2,761,716</u>	<u>\$ 52,579,501</u>

CITY OF SCHERTZ, TEXAS  
RECONCILIATION OF BALANCE SHEET  
SEPTEMBER 30, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 49,098,942
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	133,989,421
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recognized as revenue in the funds.	1,792,604
The governmental funds report other post-employment benefit contributions as expenditures when they become due and payable. However, in the statement of activities differences between other post-employment benefit contributions and actuarially determined costs are reported as an obligation.	(506,934)
Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore, not reported in the funds:	
Bonds Payable	(65,015,000)
Unamortized Premiums, Discounts, Losses on Refundings	(1,106,409)
Capital Lease Payable	(25,151)
Accrued Interest Payable	(445,372)
Compensated Absences	(1,069,849)
<u>Service Concession Arrangements (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in governmental funds:</u>	<u>(67,661,781)</u>
Service Concession Arrangement (Liability)	(507,136)
Service Concession Arrangement Receivable	851,356
Deferred Service Concessions	(344,220)
Net Pension Liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources are not reported in governmental funds:	-
Net Pension Liability	(12,968,145)
Pension Related Deferred Outflows	2,903,814
	<u>(10,064,331)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 106,647,921</u>





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

	General Fund	Capital Projects	Debt Service Fund	Economic Development Corporation	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 19,450,338	\$ -	\$ 6,149,844	\$ 3,620,930	\$ 499,466	\$ 29,720,578
Permits and Fees	2,367,929	-	-	-	172,116	2,540,045
Service Fees	2,107,844	-	-	-	24,455	2,132,299
Fines and Fees	1,021,965	-	-	-	195,656	1,217,621
Intergovernmental	307,809	89,264	-	-	-	397,073
Investment Earnings	128,158	123,920	47,758	125,684	22,897	448,417
Miscellaneous	603,477	745,050	100,000	-	209	1,448,736
<b>TOTAL REVENUES</b>	<b>25,987,520</b>	<b>958,234</b>	<b>6,297,602</b>	<b>3,746,614</b>	<b>914,799</b>	<b>37,904,769</b>
<b>EXPENDITURES</b>						
<i>Current:</i>						
General Government	5,171,635	-	-	92,829	130,454	5,394,918
Public Safety	11,846,184	-	-	-	24,452	11,870,636
Public Environment	1,128,979	-	-	-	-	1,128,979
Parks and Recreation	1,682,955	-	-	-	202,960	1,885,915
Cultural	901,992	-	-	-	19,878	921,870
Health	672,934	-	-	-	-	672,934
Administration	2,395,926	-	-	450,524	66,405	2,912,855
<i>Capital Outlay</i>	644,773	4,757,930	-	-	89,493	5,492,196
<i>Debt Service:</i>						
Principal	33,174	-	4,440,000	-	-	4,473,174
Interest and Fiscal Charges	36,513	-	2,077,166	-	-	2,113,679
Bond Issue Costs	-	211,330	2,950	-	-	214,280
<b>TOTAL EXPENDITURES</b>	<b>24,515,065</b>	<b>4,969,260</b>	<b>6,520,116</b>	<b>543,353</b>	<b>533,642</b>	<b>37,081,436</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,472,455	(4,011,026)	(222,514)	3,203,261	381,157	823,333
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds From Issuance of Debt	-	8,870,000	-	-	-	8,870,000
Premiums from Issuance of Debt	-	381,931	-	-	-	381,931
Transfers In	68,385	9,399	361,019	-	-	438,803
Transfers Out	-	-	-	(361,019)	(68,385)	(429,404)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>68,385</b>	<b>9,261,330</b>	<b>361,019</b>	<b>(361,019)</b>	<b>(68,385)</b>	<b>9,261,330</b>
<b>Net Change in Fund Balance</b>	<b>1,540,840</b>	<b>5,250,304</b>	<b>138,505</b>	<b>2,842,242</b>	<b>312,772</b>	<b>10,084,663</b>
Fund Balances at Beginning of Year	11,428,778	11,665,693	1,311,577	12,227,179	2,381,052	39,014,279
Fund Balances at End of Year	\$ 12,969,618	\$ 16,915,997	\$ 1,450,082	\$ 15,069,421	\$ 2,693,824	\$ 49,098,942

See accompanying notes to basic financial statements.



CITY OF SCHERTZ, TEXAS  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

CITY OF SCHERTZ, TEXAS  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS (CONTINUED)  
SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Water and Sewer System	Schertz EMS	Total	
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 2,353,733	\$ -	\$ 2,353,733	\$ -
Investments	9,725,719	551,826	10,277,545	-
Accounts Receivable, Net of Allowance:				
Customer Accounts	2,719,495	3,092,705	5,812,200	-
Due from Other Funds	116,040	-	116,040	-
Accrued Interest	6,324	-	6,324	-
Inventory	51,790	81,640	133,430	-
<i>Total Current Assets</i>	<u>14,973,101</u>	<u>3,726,171</u>	<u>18,699,272</u>	-
<i>Noncurrent Assets:</i>				
Restricted Assets:				
Cash and Cash Equivalents	1,444,226	-	1,444,226	-
Investments	14,246,632	90,028	14,336,660	-
Capital Assets:				
Land	1,354,138	-	1,354,138	-
Water Rights	70,245	-	70,245	-
Buildings and Improvements	4,653,501	6,500	4,660,001	-
Machinery, Equipment, and Vehicles	2,814,438	2,198,639	5,013,077	-
Infrastructure	92,807,350	-	92,807,350	-
Construction in Progress	2,907,404	-	2,907,404	-
Less: Accumulated Depreciation	(29,835,794)	(1,397,623)	(31,233,417)	-
<i>Total Noncurrent Assets</i>	<u>90,462,140</u>	<u>897,544</u>	<u>91,359,684</u>	-
<b>TOTAL ASSETS</b>	<u>105,435,241</u>	<u>4,623,715</u>	<u>110,058,956</u>	-
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Loss on Refunding	89,998	-	89,998	-
Deferred Pension Related Outflows	359,249	548,412	907,661	-
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>\$ 449,247</u>	<u>\$ 548,412</u>	<u>\$ 997,659</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

	Business-Type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Water and Sewer System	Schertz EMS	Total	
<b>LIABILITIES</b>				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 2,037,480	\$ 56,756	\$ 2,094,236	\$ -
Accrued Liabilities	45,370	130,790	176,160	-
Customer Deposits	590,618	-	590,618	-
Accrued Interest Payable	55,618	7,953	63,571	-
Due to Other Funds	-	175,084	175,084	-
Unearned Revenue	431,088	10	431,098	-
Current Portion of Compensated Absences	19,212	42,913	62,125	-
Current Portion of Long-Term Debt	1,282,556	329,541	1,612,097	-
<i>Total Current Liabilities</i>	<u>4,461,942</u>	<u>743,047</u>	<u>5,204,989</u>	-
<i>Noncurrent Liabilities:</i>				
Compensated Absences	76,847	171,653	248,500	-
Net Other Post-Employment Benefit Payable	48,451	100,370	148,821	-
Net Pension Liability	1,603,324	2,454,626	4,057,950	-
Long-Term Debt (Net of Current Portion)	9,441,450	812,579	10,254,029	-
<i>Total Noncurrent Liabilities</i>	<u>11,170,072</u>	<u>3,539,228</u>	<u>14,709,300</u>	-
<b>TOTAL LIABILITIES</b>	<u>15,632,014</u>	<u>4,282,275</u>	<u>19,914,289</u>	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	70,065,611	295,424	70,361,035	-
Unrestricted	20,186,863	594,428	20,781,291	-
<b>TOTAL NET POSITION</b>	<u>\$ 90,252,474</u>	<u>\$ 889,852</u>	<u>\$ 91,142,326</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

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

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

	Business-Type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Water and Sewer System	Schertz EMS	Total	
<b>OPERATING REVENUES</b>				
Fees Charged to Users	\$ 25,079,280	\$ 6,366,894	\$ 31,446,174	\$ -
Charges for Premiums	-	-	-	2,690,926
Other Charges	311,433	-	311,433	-
<b>TOTAL OPERATING REVENUES</b>	<b>25,390,713</b>	<b>6,366,894</b>	<b>31,757,607</b>	<b>2,690,926</b>
<b>OPERATING EXPENSES</b>				
Personnel Services	1,861,475	3,976,190	5,837,665	2,690,926
Contribution to Joint Ventures	2,542,314	-	2,542,314	-
Water Purchase	2,918,214	-	2,918,214	-
Garbage Contractor	4,342,077	-	4,342,077	-
Sewage Treatment	3,763,487	-	3,763,487	-
General and Administrative	2,454,165	541,006	2,995,171	-
Contractual Services	356,891	651,726	1,008,617	-
Supplies and Maintenance	458,539	480,692	939,231	-
Depreciation	2,282,145	339,171	2,621,316	-
<b>TOTAL OPERATING EXPENSES</b>	<b>20,979,307</b>	<b>5,988,785</b>	<b>26,968,092</b>	<b>2,690,926</b>
<b>OPERATING INCOME (LOSS)</b>	<b>4,411,406</b>	<b>378,109</b>	<b>4,789,515</b>	<b>-</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment Earnings	207,817	3,649	211,466	-
Lease Income	232,754	-	232,754	-
Miscellaneous	122,373	120,606	242,979	-
Interest Expense	(368,390)	(17,393)	(385,783)	-
Amortization	1,619	-	1,619	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>196,173</b>	<b>106,862</b>	<b>303,035</b>	<b>-</b>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>4,607,579</b>	<b>484,971</b>	<b>5,092,550</b>	<b>-</b>
Transfers In (Out)	-	(9,399)	(9,399)	-
Capital Contributions	6,111,474	-	6,111,474	-
<b>CHANGE IN NET POSITION</b>	<b>10,719,053</b>	<b>475,572</b>	<b>11,194,625</b>	<b>-</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>79,533,421</b>	<b>414,280</b>	<b>79,947,701</b>	<b>-</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 90,252,474</b>	<b>\$ 889,852</b>	<b>\$ 91,142,326</b>	<b>\$ -</b>

	Business-Type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Water and Sewer System	Schertz EMS	Total	
<b>Cash Flows From Operating Activities:</b>				
Cash Received From Customers and Users	\$ 25,048,982	\$ 5,591,596	\$ 30,640,578	\$ -
Cash Received from Interfund Services	-	-	-	2,690,926
Cash Paid to Employees for Services	(1,836,377)	(3,810,177)	(5,646,554)	(2,690,926)
Cash Paid to Supplier for Goods & Services	(16,460,515)	(1,704,734)	(18,165,249)	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>6,752,090</b>	<b>76,685</b>	<b>6,828,775</b>	<b>-</b>
<b>Cash Flows From Noncapital Financing Activities:</b>				
Cash Advances From/(To) Other Funds	-	165,685	165,685	-
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>-</b>	<b>165,685</b>	<b>165,685</b>	<b>-</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition and Construction of Capital Assets	(1,030,767)	(34,510)	(1,065,277)	-
Interest Paid on Long-Term Debt	(365,973)	(11,336)	(377,309)	-
Principal Paid on Long-Term Debt	(1,332,556)	(229,541)	(1,562,097)	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(2,729,296)</b>	<b>(275,387)</b>	<b>(3,004,683)</b>	<b>-</b>
<b>Cash Flows From Investing Activities:</b>				
Purchase of Investments	(4,904,577)	(552,751)	(5,457,328)	-
Premium from Issuance of Debt	-	19,399	19,399	-
Proceeds from Issuance of Debt	-	540,000	540,000	-
Payments from Leases	232,754	-	232,754	-
Interest and Investment Earnings	207,817	3,649	211,466	-
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(4,464,006)</b>	<b>10,297</b>	<b>(4,453,709)</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(441,212)</b>	<b>(22,720)</b>	<b>(463,932)</b>	<b>-</b>
<b>Cash and Cash Equivalents at Beginning of Year:</b>				
Cash and Cash Equivalents	1,779,941	22,720	1,802,661	-
Restricted Cash and Cash Equivalents	2,459,230	-	2,459,230	-
	4,239,171	22,720	4,261,891	-
<b>Cash and Cash Equivalents at End of Year:</b>				
Cash and Cash Equivalents	2,333,733	-	2,333,733	-
Restricted Cash and Cash Equivalents	1,444,226	-	1,444,226	-
	\$ 3,797,959	\$ -	\$ 3,797,959	\$ -

See accompanying notes to basic financial statements.

See accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds		Total	Governmental Activities	
	Water and Sewer System	Schertz EMS			Internal Service Fund
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>					
Operating Income	\$ 4,411,406	\$ 378,109	\$ 4,789,515	\$ -	-
Revenues from Other Sources	122,373	120,606	242,979	-	-
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	2,282,145	339,171	2,621,316	-	-
Decrease (Increase) in Assets:					
Accounts Receivable (net)	(494,473)	(895,886)	(1,390,359)	-	-
Prepaid Expenses	17,189	19,327	36,516	-	-
Inventory	9,928	(47)	9,881	-	-
Deferred Pension Outflows	25,794	53,434	79,228	-	-
Increase (Decrease) in Liabilities:					
Accounts Payable	348,055	(50,590)	297,465	-	-
Accrued Liabilities	(7,659)	11,302	3,643	-	-
Customer Deposits	20,868	-	20,868	-	-
Unearned Revenue	9,501	(18)	9,483	-	-
Compensated Absences	(11,920)	15,727	3,807	-	-
Net Pension Liability	30,066	62,286	92,352	-	-
Net Other Post-employment Benefit Payable	(11,183)	23,264	12,081	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 6,752,090</b>	<b>\$ 76,685</b>	<b>\$ 6,828,775</b>	<b>\$ -</b>	<b>\$ -</b>
Noncash Capital and Related Financing Transactions:					
Developer Contributions of Capital Assets	\$ 6,111,474	\$ -	\$ -	\$ -	\$ -

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Schertz is a municipal corporation governed by an elected mayor and five-member council. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

A. Reporting Entity

**Component Units** - As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. The City reports the following blended component units:

1. **Schertz Economic Development Corporation** - The Corporation was organized for the purpose of promoting economic development in order to eliminate unemployment and underemployment and to promote and encourage employment and public welfare of, for, and on behalf of the City. The board of directors consists of seven (7) members appointed by the city council. The City is financially accountable for the Corporation because the city council approves the Corporation's budget. For financial reporting purposes, the SEDC is reported as if it were part of the City's operations because its purpose is to benefit the citizens of the City. Complete financial statements for the Schertz Economic Development Corporation may be obtained from City Hall.

2. **Parks and Recreation Foundation** - The Foundation was organized to improve and expand the community parks, trails, venues, and recreational programs providing fun leisure and healthy activities. The Foundation's governing board is comprised of Schertz residents and employees of the City, the accounting records are maintained by the finance department, cash is held by the City and the City provides financing for the Foundation. In addition, the City includes the Foundation as part of the City budget process. The Foundation qualifies as a blended component unit as it provides services entirely to the City and its citizens. The Foundation was dissolved by the City in the current year.

**Joint Ventures** - A joint venture is a legally separate entity that results from a contractual arrangement and that is owned, operated, or governed by two or more participating governments. The following entities meet the criteria as joint ventures. Separate financial statements for these entities may be obtained at City Hall.

1. **Schertz/Seguin Local Government Corporation** - is a public, nonprofit corporation organized to aid, assist, and act on behalf of the cities of Schertz and Seguin in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations.

2. **Cibolo Valley Local Government Corporation** - is a public, nonprofit corporation organized July 28, 2011 to aid, assist, and act on behalf of the cities of Cibolo, Converse and Schertz in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. **Cibolo Creek Municipal Authority (CCMA)** - was created in 1971 and provides regional wastewater services to the area northeast of San Antonio. The City and CCMC entered into a joint project to develop a new treatment facility that will currently only serve the City. The project will have excess capacity to serve other users in the future. The City is solely responsible for funding the project until other users need capacity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Nonexchange revenues that are measurable but not available are recorded as unavailable revenue (a deferred inflow of resources). These revenues are generally property taxes and warrants outstanding. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Exchange revenues (payments for services) received in advance of the service being provided are recorded as unearned revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

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

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

**The Capital Projects Fund** accounts for financial resources to be used for the acquisition and construction of major capital facilities and is principally financed by the sale of bonds or certificates of obligation and grants.

**Economic Development Corporation** collects sales taxes to support business development and expansion within the City.

**Nonmajor Funds** include Special Revenue funds (other than major projects and grants).

The government reports the following major proprietary funds:

**The Water and Sewer System Fund** accounts for the water and sewer services provided to the citizens through user charges.

**The EMS Fund** accounts for the emergency medical services provided to the citizens of the City and other participating governments through user charges.

**Internal Service Fund** accounts for the City's group medical insurance program.

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

Amounts reported as program revenues include 1) charges to customers or applications for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes and investment earnings.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand and demand deposits. Cash is reported as restricted when it has restrictions on its use narrower than the purpose of the fund in which it is reported. This can result in differences in presentation between fund statements and government-wide statements.

E. Investments

The City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas of the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, or secured by obligations mentioned above; and (6) fully collateralized direct repurchase agreements having a defined termination date. In addition, the City is authorized to invest in local government investment pools. The investment pools operate in accordance with appropriate state laws and regulations and have regulatory oversight from the Texas Public Funds Investment Act Sec. 2256.0016. The fair value of the City's position in each pool is the same as the fair value of the pool shares.

F. Receivables and Payables

Activities between the funds that are representative of interfund loans outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Accounts receivable are reported net of allowances for uncollectible accounts. The allowance account represents management's estimate of uncollectible accounts based upon experience and historical trends.

Property taxes for the City are levied each October 1 on the taxable value as of the preceding January 1, the date a lien attaches, for all taxable real and personal property located in the City. Taxes are due by January 31 following the October 1 assessment date and become delinquent on February 1, at which time they begin accruing penalty and interest. The enforceable legal claim date for property taxes is the assessment date; therefore, the City did not record a receivable for accrual of future taxes at year end. Accordingly, no current taxes receivable are reported. Delinquent taxes have been reported in the financial statements net of the allowance for uncollectible taxes. Tax revenues are recognized as they become available. Accordingly, an amount equal to taxes not yet available has been reported as unavailable revenue (a deferred inflow of resources) at the government fund level.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental-wide and fund financial statements and in the fund financial statements are offset by a nonspendable fund balance which indicates they do not represent "available spendable resources".

J. Deferred Inflows/Outflows of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation and compensatory time pay is accrued when incurred in the governmental-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Capital Assets

Capital assets, which include land, buildings and improvements, machinery, equipment, vehicles, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Capital assets are valued at cost where historical records are available and at an estimated cost where no records exist. Donated capital assets, donated works of art and similar items received as part of a service concession arrangement are reported at acquisition value. All other donated capital assets are valued at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements to capital assets that materially extend the life of the asset or add to the value are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction will not be capitalized in the governmental activities on the government-wide financial statements; however capitalization of interest is required for business-type activities. There was no capitalized interest during the current fiscal year.

Capital assets are depreciated over their useful lives on a straight-line basis as follows:

Assets	Useful Lives (Years)
Buildings and Improvements	10 - 50
Machinery, Equipment, and Vehicles	2 - 20
Infrastructure	15 - 30

L. Pensions

The net pension liability, deferred inflows, and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Long-Term Obligations

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

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

N. Fund Equity

Fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.



CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Equity (Continued)

Restricted – Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed – Represents amounts that can only be used for a specific purpose because of a formal action by the government's highest level of decision making authority: an ordinance adopted by City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned – Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council may make assignments through formal documentation in the minutes. The City Council authorized (by way of policy) the City Manager to also make assignments. The City Manager's assignments do not require formal action; however, the City Manager has not assigned any funds at this time.

Unassigned – Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, and assigned third.

O. Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed by creditors, grantors, or laws or regulations of other governments.

P. Estimates

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

Q. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the library grant special revenue fund, police department forfeiture special revenue fund and the capital projects fund, which adopts project-length budgets.

R. Reclassifications

Certain reclassifications have been made in the presentation of the September 30, 2017 financial statements. All comparative information for prior periods has been reclassified to match the new presentation. The changes in presentation had no impact on the changes in net position or fund balance.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The City's operating deposits are held at one institution. The institution provides a combination of pledged collateral and FDIC insurance to completely collateralize the City's deposits.

As of September 30, 2017, the City had the following pooled investment funds:

Investment Type	Fair Value	Weighted Average Maturity in Days
LOGIC	\$ 17,541,325	40
Lone Star Investment Pool	21,322,949	47
Texas CLASS	21,623,633	79
Schertz Bank & Trust - Certificates of Deposit	3,153,510	180
Capital One - U.S. Agency Securities	3,133,521	676
Total	<u>\$ 66,774,938</u>	<u>91</u>

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to highly liquid investments to meet unanticipated cash requirements, and/or to redeploy cash into other investments expected to outperform current holdings.

*Credit Risk.* State law limits investments in certificates of deposit to guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund, or its successor and investment pools continuously rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The City's investment policy does not further limit its investment choices. As of September 30, 2017, the City's investments in the pooled investment funds were rated AAAm by Standard & Poor's. The City has also invested in debt securities provided by the Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Banks, and U.S. Treasury Notes. As of September 30, 2017, the City's investments in debt securities were rated BBB+ by Standard & Poor's.

*Custodial Credit Risk - Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. As of September 30, 2017, the City's cash and cash equivalents (including certificates of deposit, and component unit holdings) were fully collateralized by the City's depository by a combination of pledged collateral and FDIC insurance. All collateral is held in the City's name.

*Custodial Credit Risk - Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the government securities owned by the City are held by its agent in the City's name.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 3 - FAIR VALUE MEASUREMENT

The City 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; Level 3 inputs are significant unobservable inputs.

As of September 30, 2017, the City's recurring fair value measurement assets consist of Fixed Income U.S. Agency Securities. These investments are valued using prices quoted in active markets for those securities.

The following table summarizes the assets for which fair values are determined on a recurring basis as of September 30, 2017:

Investment Type	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Fixed Income Securities	\$ 3,133,521	\$ -	\$ -	\$ 3,133,521
Municipal Investment Pools	60,487,907	-	-	60,487,907
<b>Total</b>	<b>\$ 63,621,428</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 63,621,428</b>

NOTE 4 - PROPERTY TAX

Taxes are levied on and payable as of October 1. The City has contracted with the Guadalupe County Tax Assessor-Collector to collect taxes on its behalf. Current taxes become delinquent February 1. Current year delinquent taxes not paid by July 1 are turned over to attorneys for collection action. The total taxable value as of October 1, 2016, upon which the fiscal 2017 levy was based, was \$3,647,504,903 (i.e., market value less exemptions). The estimated market value was \$4,296,677,844 making the taxable value 85% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt for the year ended September 30, 2017, was \$0.4911 per \$100 of assessed value, which means that the City has a tax margin of \$2.0089 for each \$100 value and could increase its annual tax levy by approximately \$73,274,726 based upon the present assessed valuation before the limit is reached.

However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Tax Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's effective tax rate.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 4 - PROPERTY TAX (Continued)

Property taxes are recorded as receivables and unearned revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in the time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts (if any), at the levy date.

NOTE 5 - RECEIVABLES

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

	Governmental Funds				Proprietary Funds	
	General	Economic Development	Debt Service	Nonmajor Funds	Water and Sewer Fund	Schertz/EMS
<i>Receivables:</i>						
Property Taxes	\$ 158,116	\$ -	\$ 87,819	\$ -	\$ -	\$ -
Sales Taxes	1,330,632	665,316	-	33,548	-	-
Occupancy Taxes	491,039	-	-	-	-	-
Franchise Taxes	116,209	-	-	-	2,813,969	23,335,745
Customers	3,836,423	-	-	-	-	-
Court Fines	-	-	-	-	-	-
Grants	-	-	-	-	-	-
Other	-	8,448	-	-	-	51,284
Gross Receivables	5,932,419	673,764	87,819	33,548	2,813,969	23,387,029
Less: Allowance for Uncollectibles	2,284,486	-	5,269	33,548	94,474	20,294,324
<b>Net Total Receivables</b>	<b>\$ 3,647,933</b>	<b>\$ 673,764</b>	<b>\$ 82,550</b>	<b>\$ -</b>	<b>\$ 2,719,495</b>	<b>\$ 3,092,705</b>

Governmental funds report *unavailable revenue* in connection with receivables for revenue that is 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. At the end of the current fiscal year, the various components of *unearned/unavailable revenue* and *unavailable revenue* reported in the governmental funds were as follows:

<i>General Fund</i>	Unavailable
Delinquent Property Taxes Receivable	\$ 148,630
Court Fines	1,561,424
<b>Total General Fund</b>	<b>1,710,054</b>
<i>Debt Service Fund</i>	
Delinquent Property Taxes Receivable	82,550
<b>Total Debt Service Fund</b>	<b>82,550</b>
<b>Total Governmental Funds</b>	<b>\$ 1,792,604</b>

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of September 30, 2017 is as follows:

Due From	Due To	Amount	Purpose
Capital Projects Fund	Water & Sewer	\$ 116,040	Structured funding for Waterline Project
EMS	General	175,084	Short-term pooled cash loan

The following schedule briefly summarizes the City's transfer activity for the year ending September 30, 2017:

Transfer From	Transfer To	Amount	Purpose
Nonmajor Governmental	General	\$ 68,385	Supplement DEA expenditures
EMS	Capital Projects	9,399	Supplement capital purchases
Economic Development	Debt Service	361,019	Pledge in support of debt service

NOTE 7 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
<b>Governmental Activities:</b>					
<i>Capital Assets, Not Being Depreciated:</i>					
Land	\$ 7,499,108	\$ -	\$ -	\$ -	\$ 7,499,108
Construction in Progress	9,832,153	4,858,158	-	(1,057,797)	13,632,514
<b>Total Capital Assets Not Being Depreciated</b>	<b>17,331,261</b>	<b>4,858,158</b>	<b>-</b>	<b>(1,057,797)</b>	<b>21,131,622</b>
<i>Capital Assets, Being Depreciated:</i>					
Buildings and Improvements	43,607,412	-	-	70,535	43,677,947
Machinery, Equipment, and Vehicles	9,282,067	706,131	(628,445)	987,262	10,347,015
Streets and Infrastructure	100,003,048	9,300,430	-	-	109,303,478
<b>Total Capital Assets Being Depreciated</b>	<b>152,892,527</b>	<b>10,006,561</b>	<b>(628,445)</b>	<b>1,057,797</b>	<b>163,328,440</b>
<b>Accumulated Depreciation:</b>					
Buildings and Improvements	(10,743,693)	(1,536,428)	-	-	(12,280,121)
Machinery, Equipment, and Vehicles	(5,257,401)	(934,052)	377,894	-	(5,813,559)
Streets and Infrastructure	(29,113,036)	(3,263,925)	-	-	(32,376,961)
<b>Total Accumulated Depreciation</b>	<b>(45,114,130)</b>	<b>(5,734,405)</b>	<b>377,894</b>	<b>-</b>	<b>(50,470,641)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>107,778,397</b>	<b>4,272,156</b>	<b>(250,551)</b>	<b>1,057,797</b>	<b>112,857,799</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 125,109,658</b>	<b>\$ 9,130,314</b>	<b>\$ (250,551)</b>	<b>\$ -</b>	<b>\$ 133,989,421</b>

NOTE 7 - CAPITAL ASSETS (Continued)

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

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
<b>Business-Type Activities:</b>					
<i>Capital Assets, Not Being Depreciated:</i>					
Land	\$ 1,354,138	\$ -	\$ -	\$ -	\$ 1,354,138
Water Rights	70,245	-	-	-	70,245
Construction in Progress	2,681,683	1,030,767	-	(805,046)	2,907,404
<b>Total Assets Not Being Depreciated</b>	<b>4,106,066</b>	<b>1,030,767</b>	<b>-</b>	<b>(805,046)</b>	<b>4,331,787</b>
<i>Capital Assets, Being Depreciated:</i>					
Buildings and Improvements	4,660,001	-	-	-	4,660,001
Machinery, Equipment, and Vehicles	5,095,324	34,510	(116,757)	-	5,013,077
Infrastructure	85,890,831	6,111,473	-	805,046	92,807,350
<b>Total Capital Assets Being Depreciated</b>	<b>95,646,156</b>	<b>6,145,983</b>	<b>(116,757)</b>	<b>805,046</b>	<b>102,480,228</b>
<b>Accumulated Depreciation:</b>					
Buildings and Improvements	(2,226,657)	(247,349)	-	-	(2,474,006)
Machinery, Equipment, and Vehicles	(2,503,456)	(608,901)	116,757	-	(2,995,600)
Infrastructure	(23,998,745)	(1,765,066)	-	-	(25,763,811)
<b>Total Accumulated Depreciation</b>	<b>(28,728,858)</b>	<b>(2,621,316)</b>	<b>116,757</b>	<b>-</b>	<b>(31,233,417)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>66,917,298</b>	<b>3,524,667</b>	<b>-</b>	<b>805,046</b>	<b>71,247,011</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 71,023,364</b>	<b>\$ 4,555,434</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 75,578,798</b>

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

<i>Governmental Activities:</i>	
General Government	\$ 671,298
Public Safety	744,936
Public Environment	3,296,787
Parks and Recreation	851,154
Cultural	58,617
Health	84,359
Administration	27,254
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$ 5,734,405</b>
<i>Business-Type Activities:</i>	
Water and Sewer System	\$ 2,282,145
EMS	339,171
<b>Total Depreciation Expense - Business Type Activities</b>	<b>\$ 2,621,316</b>

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 8 - OPERATING LEASE

The City has agreements with several telecommunication companies to place cellular towers on City water towers. The following schedule represents the future minimum lease payments.

Fiscal Year Ending	Total
September 30, 2018	\$ 248,161
2019	260,569
2020	273,597
2021	287,277
2022	301,641
2023-2027	1,740,127
2028-2032	404,227
	<u>\$ 3,515,599</u>

NOTE 9 - CAPITAL LEASE

In 2014, the City entered into two lease agreements qualifying as capital leases for accounting purposes based on a bargain purchase option. Therefore, capital assets and a related capital lease obligation have been recorded at the present value of the future minimum lease payments at the inception date. The assets acquired through capital lease are reported in capital assets with the following accumulated depreciation at September 30, 2017:

Assets:	Governmental Activities	Business-type Activities
Equipment	\$ 133,715	\$ 347,705
Less Accumulated Depreciation	(40,115)	(250,218)
Total	<u>\$ 93,600</u>	<u>\$ 97,487</u>
	Governmental Activities	Business-type Activities
Year Ending September 30,	\$ 25,505	\$ 70,041
2018		23,347
2019		93,388
Total Payments	25,505	(667)
Less: Amount Representing Interest	(358)	
Present Value of Minimum Lease Payments	<u>\$ 25,147</u>	<u>\$ 92,721</u>

Future minimum lease payments are as follows:

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 10 - LONG TERM DEBT

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental activities. These instruments include general obligation bonds, certificates of obligation, and capital leases. These debt obligations are secured by primarily future property tax revenues. In some cases, these bonds are also secured by a pledge of net revenues from the utility system, emergency medical services and economic development sales taxes. However, the amount of the formal pledge is generally limited to \$1,000.

In June 2017, the City issued \$3,935,000 in General Obligation Bonds Series 2017 and \$5,475,000 Certificates of Obligations Series 2017 pursuant to the constitution and general laws of the State of Texas, particularly, Subchapter C of Chapter 271 of the Texas Local Government Code, as amended, and in ordinance adopted by the City Council. The certificates constitute direct and general obligations of the City payable from ad valorem taxes levied against all payable property within the City, as well as pledged revenue of up to \$1,000 of the surplus revenues from proprietary funds. The bonds and certificates were issued for the purpose of paying contractual obligations of the City for street improvements, renovations of the Municipal Complex, Senior Center and recreational facilities, purchase of ambulances and fire apparatuses, and the construction of Fire Station No. 2.

A summary of the terms of general obligation bonds and combination of tax and revenue certificates of obligation outstanding at September 30, 2017, follows:

	Issue Amount	Maturity	Rate	Balance
<b>Primary Government</b>				
<b>General Obligation Bonds</b>				
2007 Series	\$ 6,000,000	2027	4.07%	\$ 3,495,000
2008 Series	9,900,000	2028	4.13%	6,510,000
2009 Series	9,500,000	2033	2.0% - 5.50%	5,465,000
2010 Series, Refunding	2,865,000	2021	2.0% - 4.0%	1,215,000
2011 Series	8,250,000	2036	3.0% - 6.0%	7,070,000
2011A Series, Refunding	6,745,000	2024	2.33%	4,085,000
2012 Series	7,625,000	2032	2.00%	6,120,000
2014 Series, Refunding	8,450,000	2030	2.0%-4.0%	8,200,000
2015 Series, Refunding	4,185,000	2031	2.0%-3.25%	3,655,000
2016 Series	5,880,000	2036	2.0%-4.0%	5,475,000
2017 Series	3,935,000	2037	2.0%-4.0%	3,935,000
<b>Tax Notes</b>				
2013 Notes	835,000	2018	0.7% - 1.7%	170,000
2013A Notes	800,000	2018	1.30%	165,000
2015 Notes	245,000	2021	1.75%	145,000
2015A Notes	1,020,000	2023	1.54%	750,000
<b>Certificates of Obligation</b>				
2016 Series A	2,375,000	2036	2.0% - 4.0%	2,205,000
2016 Series B	1,475,000	2036	3.0%-3.75%	1,420,000
2017 Series	4,935,000	2037	3.0%-3.75%	4,935,000
<b>Total Governmental Long-Term Obligations</b>				<u>\$ 65,015,000</u>

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 10 - LONG-TERM DEBT (Continued)

**Primary Government (Continued)**

	Issue Amount	Maturity	Rate	Balance
General Obligation Bonds				
2011 Series, Refunding	\$ 2,675,000	2021	2.0%-3.0%	\$ 930,000
2013 Series, Refunding	2,130,000	2025	2.58%	1,600,000
Certificates of Obligation				
2007 Series CIB 1	6,600,000	2026	4.01%	3,880,000
2013 Series	4,965,000	2033	2.0%-4.0%	3,630,000
2017 Series	540,000	2022	3.0%-3.75%	540,000
Tax Notes				
2015 Notes	1,880,000	2021	1.75%	1,065,000
<b>Total Business-Type Long-Term Obligations</b>				<b>\$ 11,645,000</b>

Changes in long-term debt for the year ending September 30, 2017 are as follows:

	Balance 9/30/2016	Additions	Reductions	Balance 9/30/2017	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 36,385,000	\$ 3,935,000	\$ (2,250,000)	\$ 38,070,000	\$ 2,230,000
Unamortized Premium	661,176	126,800	(36,808)	751,168	43,148
General Obligation Refunding Bonds	18,610,000	-	(1,455,000)	17,155,000	1,510,000
Unamortized Premium	696,096	-	(58,650)	637,446	58,650
Certificates of Obligation	3,850,000	4,935,000	(225,000)	8,560,000	465,000
Unamortized Premium	207,189	255,130	(10,904)	451,415	23,661
Tax Notes	1,740,000	-	(510,000)	1,230,000	515,000
Capital Lease	58,321	-	(33,174)	25,147	25,147
Compensated Absences	1,022,543	251,815	(204,509)	1,069,849	213,970
<b>Total Governmental Activities</b>	<b>\$ 63,230,325</b>	<b>\$ 9,503,745</b>	<b>\$ (4,784,045)</b>	<b>\$ 67,950,025</b>	<b>\$ 5,084,576</b>
<b>Business-Type Activities:</b>					
General Obligation Refunding Bonds	\$ 3,010,000	\$ -	\$ (480,000)	\$ 2,530,000	\$ 405,000
Unamortized Premium	4,595	-	(969)	3,626	969
Certificates of Obligation	8,220,000	540,000	(710,000)	8,050,000	830,000
Unamortized Premium	111,966	19,400	(6,587)	124,779	6,587
Tax Notes	1,360,000	-	(295,000)	1,065,000	300,000
Capital Lease	162,262	-	(69,541)	92,721	69,541
Compensated Absences	306,818	65,170	(61,363)	310,625	62,125
<b>Total Business-Type Activities</b>	<b>\$ 13,175,641</b>	<b>\$ 624,570</b>	<b>\$ (1,623,460)</b>	<b>\$ 12,176,751</b>	<b>\$ 1,674,222</b>

NOTE 10 - LONG-TERM DEBT (Continued)

Annual debt service requirements of bonded debt as of September 30, 2017, are as follows:

September 30,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 4,720,000	\$ 2,417,491	\$ 7,137,491
2019	4,210,000	2,201,637	6,411,637
2020	4,355,000	2,038,287	6,393,287
2021	4,415,000	1,860,579	6,275,579
2022	4,270,000	1,697,788	5,967,788
2023-2027	19,625,000	6,369,435	25,994,435
2028-2032	16,165,000	2,974,153	19,139,153
2033-2037	7,255,000	533,363	7,788,363
Total	\$ 65,015,000	\$ 20,092,733	\$ 85,107,733

September 30,	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 1,535,000	\$ 366,416	\$ 1,901,416
2019	1,580,000	322,858	1,902,858
2020	1,620,000	279,902	1,899,902
2021	1,500,000	233,599	1,733,599
2022	875,000	191,146	1,066,146
2023-2027	3,270,000	540,361	3,810,361
2028-2032	1,035,000	152,900	1,187,900
2033-2037	230,000	4,600	234,600
Total	\$ 11,645,000	\$ 2,091,782	\$ 13,736,782

NOTE 11 - RETIREMENT PLAN

**Plan Description**

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

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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Benefits Provided**

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

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

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

	2015	2016
Inactive Employees or Beneficiaries Currently Receiving Benefits	79	84
Inactive Employees Entitled to but Not Yet Receiving Benefits	138	155
Active employees	312	317
	529	556

**Contributions**

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.94% and 15.87% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$2,756,511 and were equal to the required contributions.

**Net Pension Liability**

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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Actuarial Assumptions**

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

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return*	6.75%

\* Presented net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding the expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive).

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Actuarial Assumptions (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	<u>100.00%</u>	

**Discount Rate**

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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Changes in the Net Pension Liability**

The below schedule presents the changes in the Net Pension Liability as of December 31, 2016:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 55,119,232	\$ 38,499,857	\$ 16,619,375
Changes for the year:			
Service Cost	2,855,745	-	2,855,745
Interest	3,763,562	-	3,763,562
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	139,216	-	139,216
Changes of Assumptions	-	-	-
Contributions - Employer	-	2,627,335	(2,627,335)
Contributions - Employee	-	1,152,864	(1,152,864)
Net Investment Income	-	2,602,572	(2,602,572)
Benefit Payments, Including Refunds of Employee Contributions	(1,581,272)	(1,581,272)	-
Administrative Expense	-	(29,385)	29,385
Other Changes	-	(1,583)	1,583
Net Changes	\$ 5,177,251	\$ 4,770,531	\$ 406,720
Balance at December 31, 2016	\$ 60,296,483	\$ 43,270,388	\$ 17,026,095

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability	\$ 27,443,427	\$ 17,026,095	\$ 8,668,647

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrsc.com](http://www.tmrsc.com).

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended September 30, 2017, the City recognized pension expense of \$3,512,360. Also as of September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ 132,647	\$ -
Changes in Actuarial Assumptions	39,689	-
Differences Between Projected and Actual Investment Earnings	1,658,421	-
Contributions Subsequent to the Measurement Date	1,980,718	-
	<u>\$ 3,811,475</u>	<u>\$ -</u>

Deferred outflows of resources in the amount of \$1,980,718 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2017. The City liquidates their Net Pension Liability through payments from the general fund. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	For the Year ended December 31,
2017	\$ 613,689
2018	613,689
2019	531,495
2020	45,274
2021	25,004
Thereafter	1,606
	<u>\$ 1,830,757</u>

C. Other Post-Employment Benefits

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

NOTE 11 - RETIREMENT PLAN (Continued)

C. Other Post-Employment Benefits (Continued)

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

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

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$22,066, \$20,324, and \$21,681, respectively, which equaled the required contributions each year.

NOTE 12 - RETIREE HEALTH INSURANCE PLAN

A. Plan Description

The City provides another post-employment benefit to eligible retirees of the City whereby they can stay on the City's health insurance plan by paying the full premium.

B. Contributions

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, 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 City's annual OPEB cost for the fiscal year ending September 30, 2017 is as follows:

Annual Required Contribution	\$ 139,515
Interest on OPEB obligation	17,912
Adjustment to ARC	(21,183)
Annual OPEB cost	<u>136,244</u>
Contributions	<u>(24,107)</u>
Increase in net OPEB obligation	112,137
Beginning Net OPEB Obligation	543,618
Ending Net OPEB Obligation	<u>\$ 655,755</u>



CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 13 - JOINT VENTURES

*Schertz/Seguin Local Government Corporation*

The Schertz/Seguin Local Government Corporation is a public, nonprofit corporation organized to aid, assist, and act on behalf of the cities of Schertz and Seguin in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations. Contributions to the corporation are reflected as "operating expenses" in the water and sewer fund and totaled \$2,242,314 for the year ended September 30, 2017. Separate financial statements for the Schertz/Seguin Local Government Corporation may be obtained from the City of Seguin, 210 East Gonzales Street, Seguin, Texas 78156.

The City of Schertz is jointly liable, together with the City of Seguin, for operating deficits and long-term debt of the Schertz/Seguin Local Government Corporation. Following is a summary of financial data as reported in the Corporation's audited financial statements dated September 30, 2016:

<b>ASSETS:</b>		\$	14,027,427
Current Assets			6,859,879
Restricted Cash and Cash Equivalents			95,187,724
Property, Plant & Equipment (net)			108,809
Other Assets			116,183,839
<b>TOTAL ASSETS</b>			<u>2,546,875</u>
<b>Deferred Charges on Refunding</b>			<u>4,858,647</u>
<b>LIABILITIES:</b>			100,976,449
Current Liabilities			105,835,096
Revenue Bonds (Less Current Maturities)			(2,288,897)
<b>TOTAL LIABILITIES</b>			<u>9,820,433</u>
<b>NET POSITION:</b>			12,895,618
Net Investment in Capital Assets			5,364,082
Restricted			7,531,536
<b>TOTAL NET POSITION</b>			<u>12,895,618</u>

The Corporation had net revenue bonds outstanding in the amount of \$103,281,449 (as of September 30, 2016) to provide funds to build, improve, extend, enlarge and repair the Corporation's utility system, fund a reserve, and pay the costs of bond issuance. The bond resolution pledges intergovernmental contract revenues from the cities of Schertz and Seguin (the participating governments) to bond holders. Under the intergovernmental water supply contract, the participating governments are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service from the operation of their respective utility systems.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 12 - RETIREE HEALTH INSURANCE PLAN (Continued)

B. Contributions (Continued)

The City'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:

September 30,	Cost	Contributions	Contributed	Obligation
2017	\$ 136,244	\$ 24,107	17.7%	\$ 655,755
2016	136,557	23,519	17.2%	543,618
2015	81,159	15,485	19.1%	430,580

The Projected Unit Credit Cost Method is used to calculate the actuarial required contribution (ARC) for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost 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 City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City'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:

Inflation Rate	2.5%
Investment Rate of Return	4.0%, net of expenses
Actuarial Cost Method	Projected Unit of Credit
Amortization Method	Level as a percent of payroll
Amortization Period	30-year open period
Payroll Growth	3.0%
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 City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. 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.

The funded status as of December 31, 2015, the most recent actuarial valuation date, is as follows:

Actuarial	Actuarial	Unfunded	UAAI as a
Valuation Date	Value	AAI (UAAI)	Percentage of
12/31/2015	of Assets	Funded Ratio	Covered Payroll
\$	\$ 1,055,757	0.0%	\$ 14,356,845
			<u>7.4%</u>

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 13 - JOINT VENTURES (Continued)

*Cibolo Valley Local Government Corporation*

The Cibolo Valley Local Government Corporation (CVLGC) is a public nonprofit corporation incorporated in March 2012 to assist and act on behalf of the cities of Schertz, and Cibolo to obtain additional water sources. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations. Contributions to the corporation are reflected as "operating expenses" in the water and sewer fund. Separate financial statements for the CVLGC may be obtained from the City of Seguin, 210 East Gonzales Street, Seguin, Texas 78156.

The City of Schertz is jointly liable, together with the City of Cibolo, for operating deficits and long-term debt of CVLGC. Following is a summary of financial data as reported in the Corporation's audited financial statements dated September 30, 2016:

<b>ASSETS:</b>	
Current Assets	\$ 613,204
Noncurrent Assets	<u>1,268,516</u>
<b>TOTAL ASSETS</b>	<u>1,881,720</u>
<b>LIABILITIES:</b>	
Current Liabilities	<u>92,012</u>
<b>TOTAL LIABILITIES</b>	<u>92,012</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	1,268,516
Unrestricted	<u>521,192</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,789,708</u>

*Cibolo Creek Municipal Authority*

Cibolo Creek Municipal Authority (CCMA) provides sewage treatment for the area in and around the City. CCMA has agreed to construct a sewage treatment facility in the southern portion of the City to primarily serve citizens of the City but also neighboring Cities and future development. Because the City would be the primary customer at this time, the City agreed to enter into a regional wastewater treatment contract in September 2014. CCMA will issue bonds to finance the project and the City has agreed to make payments to CCMA to cover operation expenses, maintenance expenses, and debt service. The City is the sole member at this time, so it is responsible for 100% of the project costs. Should other members join, the City's share of the costs would be reduced.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 13 - JOINT VENTURES (Continued)

*Cibolo Creek Municipal Authority (Continued)*

In September 2014, CCMA issued bonds for the project in the amount of \$6,950,000 with debt service requirements as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2018	\$ 150,000	\$ 260,250	\$ 410,250
2019	155,000	257,250	412,250
2020	160,000	254,150	414,150
2021	160,000	250,950	410,950
2022	165,000	247,750	410,950
2023-2027	905,000	1,156,050	2,061,050
2028-2032	1,090,000	966,450	2,056,450
2033-2037	1,340,000	721,950	2,061,950
2038-2042	1,680,000	372,050	2,052,050
2043-2044	775,000	46,800	821,800
	<u>\$ 6,580,000</u>	<u>\$ 4,533,650</u>	<u>\$ 11,111,850</u>

NOTE 14 - COMMITMENTS AND CONTINGENCIES

*Tax Increment Financing (the "Zone")*

The City is a principal in the City of Schertz Tax Increment Reinvestment Zone #2, pursuant to Chapter 311 of the Texas Tax Code. Under the terms of the Zone agreement, the City of Schertz, Bexar County, and San Antonio River Authority are funding infrastructure improvements through tax increment financing to the Sedona Development Project.

At the time the Zone was created, the property tax base was "frozen" and increment taxes resulting from the increases to property tax base are being used to finance Zone improvements. The total projected cost is a combined figure of \$45,000,000. Project costs of the developer will be funded up to 100% of the tax increment generated by the City of Schertz, Bexar County, and San Antonio River Authority (SARA). The City of Schertz (combined with SARA) have committed up to \$32,877,000 of the total \$45,000,000. The Zone has a statutory termination date of December 31, 2027. The TIRZ has collected \$949,976 from taxing entities (net of administrative reimbursements) and remitted \$771,928 to the developer as of September 30, 2017.

*380 Agreements*

The Chapter 380 Incentive program, authorized by Chapter 380 of the Texas Local Government Code, enables the City of Schertz to provide grants or reimbursements from the City's general fund. To become eligible for Chapter 380 Incentives, projects must create at least of \$100 million in new real and personal property; or generate at least \$35 million in gross sales that is subject to the collection of local sales and use tax. Businesses that have a 380 Incentive agreement with the City are eligible to receive a reimbursement of taxes paid for the year if they have met the requirements outlined in the agreement by a certain date each year. For the fiscal year ended September 30, 2017, the City reimbursed \$965,674 in property taxes paid.

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

*Economic Development Incentive Agreements*

The City of Schertz Economic Development Corporation (the SEDC) negotiates economic development incentive agreement on behalf of the SEDC and the City of Schertz (the City) on an individual basis. As of September 30, 2017, the City had nine active incentive agreements.

On May 2, 2017, the City and the Corporation approved the Schertz Incentive Policy which outlines the City's primary tools to attract commercial investment and promote economic development. Projects are selected on a case-by-case basis in accordance current policy and state laws at the discretion of the governing body. All incentive agreements are formalized through a performance agreement with specified terms and recapture criteria.

The SEDC Incentive program, authorized by Chapters 501, 502 and 505 of the Texas Local Government Code, enables the Corporation to fund allowable projects from the collection of one-half of one percent of sales tax proceeds collected in the City of Schertz. In accordance with state law, the SEDC Incentive Policy establishes grants and loans for businesses that create Primary Jobs for the following categories: Existing Businesses (3 years of operation within City), Small Businesses (fewer than 50 full-time jobs or annual sales less than \$10 million), Large Impact Businesses (Up to \$100 million in taxable property), and Extra Large Businesses (over \$100 million in taxable property).

The City and Corporation's outstanding incentive agreement grants are as follows:

City of Schertz - LGC 380.001	\$	965,674	Est. Remaining Grant	2,736,572
SEDC - LGC 501.101		-		451,552

*Service Concession Arrangements*

The City entered into an agreement with YMCA, under which YMCA will operate and collect user fees from the Natatorium and Outdoor Pools for the next 20 years. YMCA will pay the city \$100,000 annually over the course of the arrangement; the present value of these installment payments is estimated to be \$851,356. The City will approve the rates and services that YMCA will provide, however, YMCA will retain all revenues earned from the operation of the Natatorium. The YMCA will remit all revenues received from operating the Outdoor Pools to the City with the exception of revenues earned from YMCA specific programs. As of September 30, 2017, the Natatorium is still under construction and is reported by the City as Construction in Progress in the amount of \$9,801,311. The City reports the Outdoor Pools and related equipment as capital assets with a total carrying amount of \$778,529. The City reports a receivable and deferred inflow of resources in the amount of \$851,356 on the government-wide statements at year-end pursuant to the service concession arrangement. Additionally, a liability of \$507,136 for the present value of maintenance costs estimated over the life of the Service Concession arrangement.

*Litigation*

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

*Construction Commitments*

The City of Schertz has entered into commitments for various projects as follows:

<i>Primary Government:</i>	Estimated Project Cost to City	Expended to Date	Estimated Future Commitment
<i>Governmental Activities:</i>			
Lower Seguin Road Improvements	\$ 304,841	\$ 263,598	\$ 41,243
Natatorium Project	9,812,363	9,812,363	-
FM 78 and Main Street Fire Station 3	1,000,000	7,513	992,487
FM 1103 Street Improvements	8,000,000	435,007	7,564,993
Building Improvements	2,000,000	181,226	1,818,774
Main Street Improvements	1,600,000	30,364	1,569,636
FM 1518 Street Improvements	407,057	-	407,057
Total Governmental Commitments	<u>5,000,000</u>	<u>-</u>	<u>5,000,000</u>
	28,124,261	10,730,071	17,394,190
<i>Business-Type Activities:</i>			
Woman Hollering Waste Water	5,940,424	504,684	5,435,740
Town Creek Sewer Project (Phase III)	931,740	931,740	-
Corbett Ground Storage Tank & Pumps	1,650,000	930	1,649,070
Corbett Elevated Water Tank	2,982,052	286,563	2,695,489
Trainer Hale Road Distribution Main	500,000	-	500,000
Total Business-Type Activities	<u>12,004,216</u>	<u>1,723,917</u>	<u>10,280,299</u>
Total Estimated Future Commitments	<u>\$ 40,128,477</u>	<u>\$ 12,453,988</u>	<u>\$ 27,674,489</u>

*Risk Management*

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City contracts with the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program providing insurance coverage in the following areas: general liability, automobile liability and physical damage, law enforcement liability, worker's compensation, real and personal property, mobile equipment, and errors and omissions liability. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts. Annual contributions for the year ended September 30, 2017 were \$435,914 for property and casualty and workers compensation coverage. There were no significant increases or decreases in coverage from fiscal year 2016.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SCHERTZ, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
 BUDGET AND ACTUAL  
 GENERAL FUND  
 YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 19,912,226	\$ 19,912,226	\$ 19,450,338	\$ (461,888)
Permits and Fees	1,283,660	1,455,660	2,367,929	912,269
Service Fees	1,523,530	1,523,530	2,107,844	584,314
Fines and Fees	1,232,858	1,232,858	1,402,965	(210,893)
Intergovernmental	318,000	378,000	307,809	(70,191)
Investment Earnings	60,800	60,800	128,158	67,358
Miscellaneous	561,502	627,502	603,477	(24,025)
<b>TOTAL REVENUES</b>	<b>24,892,576</b>	<b>25,190,576</b>	<b>25,987,520</b>	<b>796,944</b>
<b>EXPENDITURES</b>				
<i>General Government:</i>				
Council	116,982	106,982	93,412	13,570
City Manager	1,122,395	1,112,395	1,078,187	34,208
Municipal Court	390,363	390,363	342,585	47,778
311 Customer Relations	114,369	119,269	117,777	1,492
Planning & Zoning	218,124	224,024	214,454	9,570
Legal	240,000	172,000	150,698	21,302
City Secretary	195,762	195,762	190,571	5,191
Nondepartmental	1,543,640	1,191,940	1,135,288	56,652
Community & Media Relations	324,789	331,789	319,030	12,759
Records Management	65,682	55,682	47,680	8,002
Schertz Magazine	392,668	392,668	349,950	42,718
Engineering	553,751	560,551	540,453	20,098
Geographic Information Systems	160,959	165,159	163,735	1,424
Citizens Assistance	245,260	312,545	298,164	14,381
Special Events	119,600	175,600	130,375	45,225
<b>Total General Government</b>	<b>5,804,344</b>	<b>5,506,729</b>	<b>5,172,359</b>	<b>334,370</b>
<i>Public Safety:</i>				
Police Department	6,994,853	7,021,097	6,870,568	150,529
Fire Department	3,963,560	4,082,360	4,076,531	5,829
Inspection	638,929	847,529	811,916	35,613
Marshal Service	503,837	503,837	481,980	21,857
<b>Total Public Safety</b>	<b>12,101,179</b>	<b>12,454,823</b>	<b>12,240,995</b>	<b>213,828</b>
<i>Public Environment:</i>				
Streets	1,133,776	1,267,162	1,264,787	2,375
<b>Total Public Environment</b>	<b>\$ 1,133,776</b>	<b>\$ 1,267,162</b>	<b>\$ 1,264,787</b>	<b>\$ 2,375</b>

CITY OF SCHERTZ, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
 BUDGET AND ACTUAL  
 GENERAL FUND (CONTINUED)  
 YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		2017 Actual Amounts	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<i>Parks and Recreation:</i>				
Parks	\$ 1,016,070	\$ 1,082,749	\$ 1,003,804	\$ 78,945
Pools	717,978	657,278	629,056	28,222
Community/Civic Center	164,216	154,216	117,289	36,927
<b>Total Parks and Recreation</b>	<b>1,900,764</b>	<b>1,896,743</b>	<b>1,752,642</b>	<b>144,101</b>
<i>Cultural:</i>				
Library	865,661	904,661	901,992	2,669
<b>Total Cultural</b>	<b>865,661</b>	<b>904,661</b>	<b>901,992</b>	<b>2,669</b>
<i>Health:</i>				
Animal Control	568,209	602,834	555,661	47,173
Environmental Health	219,645	219,645	204,879	14,766
<b>Total Health</b>	<b>787,854</b>	<b>822,479</b>	<b>760,540</b>	<b>61,939</b>
<i>Administration:</i>				
Information Technology	1,570,102	1,582,166	1,535,541	46,625
Human Resources	470,531	457,569	428,739	28,830
Finance	602,032	602,032	580,203	21,829
Purchasing & Asset Management	201,620	191,620	191,914	(294)
Building Maintenance	1,271,334	1,437,558	1,405,157	32,401
Fleet Service	745,927	745,927	695,951	49,976
Interfund Charges	(2,415,755)	(2,415,755)	(2,415,755)	-
<b>Total Administration</b>	<b>2,445,791</b>	<b>2,601,117</b>	<b>2,421,750</b>	<b>179,367</b>
<b>TOTAL EXPENDITURES</b>	<b>25,039,369</b>	<b>25,453,714</b>	<b>24,515,065</b>	<b>938,649</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(146,793)</b>	<b>(263,138)</b>	<b>1,472,455</b>	<b>1,735,593</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	232,095	1,308,440	68,385	(1,240,055)
Transfers Out	(72,450)	(1,022,450)	-	1,022,450
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>159,645</b>	<b>285,990</b>	<b>68,385</b>	<b>(217,605)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>12,852</b>	<b>22,852</b>	<b>1,540,840</b>	<b>1,517,988</b>
<b>FUND BALANCE - BEGINNING</b>	<b>11,428,778</b>	<b>11,428,778</b>	<b>11,428,778</b>	<b>-</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 11,441,630</b>	<b>\$ 11,451,630</b>	<b>\$ 12,969,618</b>	<b>\$ 1,517,988</b>

CITY OF SCHERTZ, TEXAS  
 NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 SEPTEMBER 30, 2017

CITY OF SCHERTZ, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
 BUDGET AND ACTUAL  
 ECONOMIC DEVELOPMENT CORPORATION  
 YEAR ENDED SEPTEMBER 30, 2017

**Budgetary Information** – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. Annual budgets are adopted for the general fund; debt service fund; hotel motel tax, park fund, tree mitigation; police forfeiture fund, library advisory board fund, and the historical committee fund. Project-length financial plans are adopted for capital projects funds. Of these budgets, only the General Fund, Debt Service and Economic Development Corporation are legally adopted.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

The City did not exceed the budgeted expenditures in any funds with legally adopted budgets during 2017.

The City does not use encumbrances.

	Budgeted Amounts	2017 Actual Amounts	Variance With Final Budget - Positive (Negative)
	Original	Final	
<b>REVENUES</b>			
Taxes	\$ 3,692,710	\$ 3,692,710	\$ (71,780)
Investment Earnings	45,550	45,550	80,134
<b>TOTAL REVENUES</b>	<u>3,738,260</u>	<u>3,738,260</u>	<u>8,354</u>
<b>EXPENDITURES</b>			
<i>Current:</i>			
General Government	733,900	733,900	641,071
Administration	961,929	961,929	511,405
<b>TOTAL EXPENDITURES</b>	<u>1,695,829</u>	<u>1,695,829</u>	<u>1,152,476</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>2,042,431</u>	<u>2,042,431</u>	<u>1,160,830</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers Out	(366,788)	(366,788)	5,769
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(366,788)</u>	<u>(366,788)</u>	<u>5,769</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,675,643	1,675,643	1,166,599
<b>FUND BALANCE - BEGINNING</b>	12,227,179	12,227,179	-
<b>FUND BALANCE - ENDING</b>	<u>\$ 13,902,822</u>	<u>\$ 13,902,822</u>	<u>\$ 1,166,599</u>

CITY OF SCHERTZ, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS  
LAST THREE PLAN YEARS

Total Pension Liability	2014	2015	2016
Service Cost	\$ 2,558,743	\$ 2,724,337	\$ 2,855,745
Interest (on the Total Pension Liability)	3,245,266	3,556,428	3,763,562
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(122,286)	120,434	139,216
Change of Assumptions	-	59,193	-
Benefit Payments, Including Refunds of Employee Contributions	(1,068,487)	(1,570,211)	(1,581,272)
Net Change in Total Pension Liability	4,613,236	4,890,181	5,177,251
Total Pension Liability - Beginning	45,615,815	50,229,051	55,119,232
Total Pension Liability - Ending	<u>\$ 50,229,051</u>	<u>\$ 55,119,232</u>	<u>\$ 60,296,483</u>
Plan Fiduciary Net Position			
	2014	2015	2016
Contributions - Employer	\$ 2,403,929	\$ 2,542,565	\$ 2,627,335
Contributions - Employee	1,077,097	1,095,260	1,152,864
Net Investment Income	1,841,586	53,742	2,602,572
Benefit Payments, Including Refunds of Employee Contributions	(1,068,487)	(1,570,211)	(1,581,272)
Administrative Expense	(19,219)	(32,727)	(29,385)
Other	(1,580)	(1,616)	(1,583)
Net Change in Plan Fiduciary Net Position	4,233,326	2,087,013	4,770,531
Plan Fiduciary Net Position - Beginning	32,179,518	36,412,844	38,499,857
Plan Fiduciary Net Position - Ending	<u>\$ 36,412,844</u>	<u>\$ 38,499,857</u>	<u>\$ 43,270,388</u>
Net Pension Liability - Ending	\$ 13,816,207	\$ 16,619,375	\$ 17,026,095
Plan Fiduciary Net Position as a Percentage of Total Pension Liability			
Covered Employee Payroll	72.49%	69.85%	71.76%
Net Pension Liability as a Percentage of Covered Employee Payroll	\$ 15,389,154	\$ 15,648,114	\$ 16,478,620
	89.78%	106.21%	103.32%

Note: The schedule above reflects the changes in the net pension liability for the current year and the previous two plan years. GASB Statement No. 68 requires 10 fiscal years of data to be provided in this schedule. The City will build this schedule over the 10-year period beginning December 31, 2014 as data becomes available.

CITY OF SCHERTZ, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CITY CONTRIBUTIONS  
LAST THREE FISCAL YEARS

Actuarially Determined Contribution Contributions in Relation to the Actuarially Determined Contribution	2015	2016	2017
	\$ 2,487,856	\$ 2,592,593	\$ 2,756,511
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ 2,592,593</u>	<u>\$ 2,756,511</u>
Covered Employee Payroll	\$ 15,486,735	\$ 16,175,988	\$ 17,347,849
Contributions as a Percentage of Covered Employee Payroll	16.06%	16.03%	15.89%

Note: The schedule above reflects the TMRS contributions made by the City for the current year and the previous two fiscal years. GASB Statement No. 68 requires 10 fiscal years of data to be provided in this schedule. The City will build this schedule over the 10-year period beginning December 31, 2014 as data becomes available.

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 Years
Asset Valuation Method	10 Year Smoothed Market; 1.5% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% Including Inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

CITY OF SCHERTZ, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 RETIREE HEALTH INSURANCE PLAN  
 ANALYSIS OF FUNDING PROGRESS  
 LAST TWO ACTUARIAL VALUATIONS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY* (b)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (b-a)	FUNDING RATIO (a/b)	ANNUAL COVERED PAYROLL (d)	UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL (b-a)/d
12/31/2013	\$ -	\$ 493,114	\$ 493,114	0.0%	\$14,356,845	3.4%
12/31/2015	\$ -	\$ 1,055,757	\$ 1,055,757	0.0%	\$15,648,114	6.7%

SUPPLEMENTARY INFORMATION

- Comparative Statements
  - General Fund
  - Economic Development Corporation
  - Debt Service Fund
  - Capital Projects Fund
  
- Combining and Comparative Individual Fund Statements - Nonmajor Governmental Funds
  - Hotel Occupancy Fund - will account for proceeds of hotel occupancy taxes to be used strictly for those kinds of programs that promote the tourism industry.
  - Park Fund - will account for revenues from developers' fees (in lieu of park land dedication), grants, and donations and is designed to monitor and manage improvement of park system.
  - Tree Mitigation Fund - will account for revenues from permits, grants and donations to preserve and replace trees in the City.
  - Treasury Forfeitures Fund - will account for revenue received from drug related cases in conjunction with other law enforcement agencies within the jurisdiction of the U.S. Treasury department.
  - Justice Forfeitures Fund - will account for revenue received from drug related cases in conjunction with other law enforcement agencies within the jurisdiction of the US Department of Justice.
  - State Forfeitures Fund - will account for revenue received from drug related cases in conjunction with other law enforcement agencies within the jurisdiction of the State Forfeiture Program.
  - Library Advisory Board - to account for certain fees generated at the library to be used by the Board for general improvements to the Library.
  - Parks and Recreation Foundation - to account for revenues from events, fundraisers and donations to improve and maintain City parks.
  - Historical Commitment Fund - will account for funds received for the preservation of the history of the city.



CITY OF SCHERTZ, TEXAS  
COMPARATIVE BALANCE SHEETS  
GENERAL FUND  
SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,062,393	\$ 1,174,602
Investments	9,485,725	9,365,670
Receivables (net of allowances):		
Taxes	1,970,300	1,955,953
Accounts and Other	1,677,633	1,949,153
Inventory	98,263	107,529
Prepaid Items	-	112,974
Restricted Cash	617,075	554,657
<b>TOTAL ASSETS</b>	<b>\$ 15,911,389</b>	<b>\$ 15,220,538</b>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES**

<i>Liabilities:</i>		
Accounts Payable	\$ 544,406	\$ 1,000,892
Accrued Salaries and Benefits	653,700	552,820
Customer Deposits	54,200	48,067
Due to Other Governments	119,149	120,321
Unearned Revenue	35,346	39,572
<i>Total Liabilities</i>	<u>1,231,711</u>	<u>1,761,672</u>
<i>Deferred Inflows of Resources:</i>		
Unavailable Revenue	1,710,054	2,030,088

*Fund Balance:*

Nonspendable:		
Inventory	98,263	107,529
Prepaid Items	-	112,974
Restricted for:		
Police and Public Safety	101,842	218,144
Municipal Court	728,350	714,609
PEG Capital Fees	638,506	577,590
Animal Control	35,660	18,667
Veterans	4,796	4,985
Scholarships	77,458	63,048
Committed for Civic Center/CIED	454,376	342,519
Assigned for:		
Property Replacement	854,198	752,503
Special Events	-	6,743
Unassigned	9,976,169	8,509,467
<i>Total Fund Balance</i>	<u>12,969,618</u>	<u>11,428,778</u>

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE**

	<b>\$ 15,911,389</b>	<b>\$ 15,220,538</b>
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CITY OF SCHERTZ, TEXAS  
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>REVENUES</b>		
Taxes	\$ 19,450,338	\$ 18,850,031
Permits and Fees	2,367,929	1,234,048
Service Fees	2,107,844	1,610,940
Fines and Fees	1,021,965	1,343,236
Intergovernmental	307,809	293,727
Investment Earnings	128,158	58,724
Miscellaneous	603,477	599,791
<b>TOTAL REVENUES</b>	<u>25,987,520</u>	<u>23,990,497</u>

**EXPENDITURES**

<i>Current:</i>		
General Government	5,171,635	4,323,209
Public Safety	11,846,184	11,010,802
Public Environment	1,128,979	1,007,326
Parks and Recreation	1,682,955	1,173,070
Cultural	901,992	843,643
Health	672,934	480,175
Administration	2,395,926	2,537,257
Capital Outlay	644,773	498,251
Debt Service:		
Principal	33,174	33,175
Interest and Fiscal Charges	36,513	38,214
<b>TOTAL EXPENDITURES</b>	<u>24,515,065</u>	<u>21,965,122</u>

**Excess (Deficiency) of Revenues Over (Under) Expenditures**

	1,472,455	2,025,375
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**OTHER FINANCING SOURCES (USES)**

Transfers In	68,385	3,019
Transfers Out	-	(216,103)

**TOTAL OTHER FINANCING SOURCES (USES)**

	68,385	(213,084)
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**Net Change in Fund Balance**

	1,540,840	1,812,291
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**Fund Balance at Beginning of Year**

	11,428,778	9,616,487
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**Fund Balance at End of Year**

	<u>\$ 12,969,618</u>	<u>\$ 11,428,778</u>
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CITY OF SCHERTZ, TEXAS  
COMPARATIVE BALANCE SHEETS  
ECONOMIC DEVELOPMENT CORPORATION  
SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 893,858	\$ 393,738
Investments	13,506,156	11,181,434
Receivables (net of allowances):		
Taxes	665,316	666,534
Accounts and Other	8,448	7,949
Prepaid Items	-	1,120
	<b>\$ 15,073,778</b>	<b>\$ 12,250,775</b>
<b>TOTAL ASSETS</b>		
<b>LIABILITIES AND FUND BALANCE</b>		
<i>Liabilities:</i>		
Accounts Payable	\$ 3,940	\$ 16,295
Accrued Salaries and Benefits	417	7,301
<i>Total Liabilities</i>	4,357	23,596
<i>Fund Balance:</i>		
Restricted for:		
Economic Development	15,069,421	12,227,179
<i>Total Fund Balance</i>	15,069,421	12,227,179
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 15,073,778</b>	<b>\$ 12,250,775</b>

CITY OF SCHERTZ, TEXAS  
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
ECONOMIC DEVELOPMENT CORPORATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>REVENUES</b>		
Taxes	\$ 3,620,930	\$ 3,660,101
Investment Earnings	125,684	52,546
Miscellaneous Revenue	-	-
<b>TOTAL REVENUES</b>	<b>3,746,614</b>	<b>3,712,647</b>
<b>EXPENDITURES</b>		
Current:		
General Government	92,829	286,943
Administration	450,524	322,596
Debt Service:		
Principal	-	155,000
Interest and Fiscal Charges	-	6,215
<b>TOTAL EXPENDITURES</b>	<b>543,353</b>	<b>770,754</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>3,203,261</b>	<b>2,941,893</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers Out	(361,019)	(536,461)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(361,019)</b>	<b>(536,461)</b>
Net Change in Fund Balance	2,842,242	2,405,432
<b>Fund Balance at Beginning of Year</b>	<b>12,227,179</b>	<b>9,821,747</b>
<b>Fund Balance at End of Year</b>	<b>\$ 15,069,421</b>	<b>\$ 12,227,179</b>

CITY OF SCHERTZ, TEXAS  
 COMPARATIVE BALANCE SHEETS  
 DEBT SERVICE FUND  
 SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 59,148	\$ 37,717
Investments	1,390,934	1,273,860
Receivables (net of allowances):		
Taxes	82,550	68,239
<b>TOTAL ASSETS</b>	<u>\$ 1,532,632</u>	<u>\$ 1,379,816</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<i>Deferred Inflows of Resources:</i>		
Unavailable Revenue	82,550	68,239
<i>Fund Balance:</i>		
Restricted for:		
Debt Service	1,450,082	1,311,577
<i>Total Fund Balance</i>	<u>1,450,082</u>	<u>1,311,577</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<u>\$ 1,532,632</u>	<u>\$ 1,379,816</u>

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 DEBT SERVICE FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Property Taxes	\$ 6,102,433	\$ 6,102,433	\$ 6,149,844	\$ 47,411	\$ 5,810,724
Investment Earnings	4,500	4,500	47,758	43,258	34,438
Miscellaneous	100,000	100,000	100,000	-	-
<b>TOTAL REVENUES</b>	<u>6,206,933</u>	<u>6,206,933</u>	<u>6,297,602</u>	<u>90,669</u>	<u>5,845,162</u>
<b>EXPENDITURES</b>					
Debt Service:					
Principal	3,810,000	3,810,000	4,440,000	(630,000)	3,852,800
Interest and Fiscal Charges	1,777,092	1,777,092	2,077,166	(300,074)	1,852,482
Bond Issue Costs	1,027,489	1,027,489	2,950	1,024,539	84,774
<b>TOTAL EXPENDITURES</b>	<u>6,614,581</u>	<u>6,614,581</u>	<u>6,520,116</u>	<u>94,465</u>	<u>5,790,056</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(407,648)</u>	<u>(407,648)</u>	<u>(222,514)</u>	<u>185,134</u>	<u>55,106</u>
<b>OTHER FINANCING SOURCES</b>					
Transfers In	407,648	407,648	361,019	(46,629)	356,119
Issuance of Refunding Debt	-	-	-	-	4,185,000
Premiums from Refunding Bonds	-	-	-	-	83,656
Payments to Refund Escrow Agents	-	-	-	-	(4,215,482)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>407,648</u>	<u>407,648</u>	<u>361,019</u>	<u>(46,629)</u>	<u>409,293</u>
<b>Net Change in Fund Balance</b>	-	-	138,505	138,505	464,399
<b>FUND BALANCE, BEGINNING</b>	<u>1,311,577</u>	<u>1,311,577</u>	<u>1,311,577</u>	<u>-</u>	<u>847,178</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 1,311,577</u>	<u>\$ 1,311,577</u>	<u>\$ 1,450,082</u>	<u>\$ 138,505</u>	<u>\$ 1,311,577</u>

CITY OF SCHERTZ, TEXAS  
 COMPARATIVE BALANCE SHEETS  
 CAPITAL PROJECTS FUND  
 SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,753,815	\$ 2,908,320
Investments	15,546,171	11,573,240
Receivables (net of allowances):		
Accounts and Other	-	18,781
<b>TOTAL ASSETS</b>	<b>\$ 17,299,986</b>	<b>\$ 14,500,341</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<i>Liabilities:</i>		
Accounts Payable	\$ 267,949	\$ 2,718,608
Due to Other Funds	116,040	116,040
<i>Total Liabilities</i>	<u>383,989</u>	<u>2,834,648</u>
<i>Fund Balance:</i>		
Restricted for Capital Improvement	16,915,997	11,665,693
<i>Total Fund Balance</i>	<u>16,915,997</u>	<u>11,665,693</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 17,299,986</b>	<b>\$ 14,500,341</b>

CITY OF SCHERTZ, TEXAS  
 COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 CAPITAL PROJECTS FUND  
 FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>REVENUES</b>		
Intergovernmental	\$ 89,264	\$ 107,767
Investment Earnings	123,920	34,384
Miscellaneous	745,050	929,250
<b>TOTAL REVENUES</b>	<u>958,234</u>	<u>1,071,401</u>
<b>EXPENDITURES</b>		
Capital Outlay	4,757,930	9,641,290
Debt Service:		
Bond Issue Costs	211,330	364,584
<b>TOTAL EXPENDITURES</b>	<u>4,969,260</u>	<u>10,005,874</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,011,026)</u>	<u>(8,934,473)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from Issuances of Debt	8,870,000	10,750,000
Premiums From Issuance of Debt	381,931	506,776
Transfers In	9,399	452,610
Transfers Out	-	(33,807)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>9,261,330</u>	<u>11,675,579</u>
Net Change in Fund Balance	5,250,304	2,741,106
Fund Balance at Beginning of Year	11,665,693	8,924,587
Fund Balance at End of Year	<u>\$ 16,915,997</u>	<u>\$ 11,665,693</u>

CITY OF SCHERTZ, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	Special Revenue Funds				Special Revenue Funds				Totals	
	Hotel Occupancy Fund	Park Fund	Tree Mitigation	Treasury Forfeitures	Justice Forfeitures	State Forfeitures	Library Advisory Board	Parks & Recreation Foundation		Historical Committee Fund
<b>ASSETS</b>										
Cash and Cash Equivalents	\$ 183,537	\$ 96,587	\$ 19,515	\$ 21,015	\$ 132,658	\$ 11,270	\$ 22,382	\$ -	\$ 9,457	\$ 496,421
Investments	1,295,228	330,364	312,398	-	248,146	-	45,611	-	-	2,231,747
Accounts Receivable, Net of Allowance	-	-	-	-	-	-	-	-	-	-
Taxes	33,548	-	-	-	-	-	-	-	-	33,548
Other	-	-	-	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,512,313</b>	<b>\$ 426,951</b>	<b>\$ 331,913</b>	<b>\$ 21,015</b>	<b>\$ 380,804</b>	<b>\$ 11,270</b>	<b>\$ 67,993</b>	<b>\$ -</b>	<b>\$ 9,457</b>	<b>\$ 2,761,716</b>
<b>LIABILITIES AND FUND BALANCE</b>										
<i>Liabilities</i>										
Accounts Payable	\$ 8,440	\$ 59,139	\$ -	\$ -	\$ -	\$ -	\$ 125	\$ -	\$ 188	\$ 67,892
<b>Total Liabilities</b>	<b>8,440</b>	<b>59,139</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>125</b>	<b>-</b>	<b>188</b>	<b>67,892</b>
<i>Fund Balance</i>										
Restricted for:										
Tourism Development	1,503,873	-	-	-	-	-	-	-	-	1,503,873
Tree Mitigation	-	-	331,913	-	-	-	-	-	-	331,913
Parks	-	367,812	-	-	-	-	-	-	-	367,812
Police Forfeiture	-	-	-	21,015	380,804	11,270	-	-	-	413,089
Library	-	-	-	-	-	-	67,868	-	-	67,868
Historical Committee	-	-	-	-	-	-	-	-	9,269	9,269
<b>Total Fund Balances</b>	<b>1,503,873</b>	<b>367,812</b>	<b>331,913</b>	<b>21,015</b>	<b>380,804</b>	<b>11,270</b>	<b>67,868</b>	<b>-</b>	<b>9,269</b>	<b>2,693,824</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,512,313</b>	<b>\$ 426,951</b>	<b>\$ 331,913</b>	<b>\$ 21,015</b>	<b>\$ 380,804</b>	<b>\$ 11,270</b>	<b>\$ 67,993</b>	<b>\$ -</b>	<b>\$ 9,457</b>	<b>\$ 2,761,716</b>

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

	Special Revenue Funds				Special Revenue Funds						Totals
	Hotel Occupancy Fund	Park Fund	Tree Mitigation	Treasury Forfeiture	Justice Forfeiture	State Forfeiture	Library Advisory Board	Parks & Recreation Foundation	Historical Committee Fund		
<b>REVENUES</b>											
Occupancy Tax	499,466	-	-	-	-	-	-	-	-	-	499,466
Permits and Fees	-	98,000	74,116	-	-	-	-	-	-	-	172,116
Service Fees	-	-	-	-	-	23,381	575	499	-	-	24,455
Fines and Fees	-	-	-	5,143	179,308	11,205	-	-	-	-	195,656
Investment Earnings	12,295	3,716	3,312	46	2,972	28	516	12	-	-	22,897
Miscellaneous	-	-	-	-	-	-	108	101	-	-	209
<b>TOTAL REVENUES</b>	<b>511,761</b>	<b>101,716</b>	<b>77,428</b>	<b>5,189</b>	<b>182,280</b>	<b>11,233</b>	<b>24,005</b>	<b>688</b>	<b>499</b>	<b>-</b>	<b>914,799</b>
<b>EXPENDITURES</b>											
Current:											
General Government	127,545	-	-	-	-	-	-	-	2,909	-	130,454
Public Safety	-	-	-	-	19,418	5,034	-	-	-	-	24,452
Parks and Recreation	-	19,487	85,901	-	-	-	97,572	-	-	-	202,960
Cultural	-	-	-	-	-	-	19,878	-	-	-	19,878
Administration	66,405	-	-	-	-	-	-	-	-	-	66,405
Capital Outlay	193,950	59,139	-	-	24,154	6,200	-	-	-	-	89,493
	-	78,626	85,901	-	43,572	11,234	19,878	97,572	2,909	-	533,642
<b>TOTAL EXPENDITURES</b>	<b>317,811</b>	<b>23,090</b>	<b>(8,473)</b>	<b>5,189</b>	<b>138,708</b>	<b>(1)</b>	<b>4,127</b>	<b>(96,884)</b>	<b>(2,410)</b>	<b>-</b>	<b>381,157</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>											
	-	-	-	-	(68,385)	-	-	-	-	-	(68,385)
<b>OTHER FINANCING SOURCES (USES)</b>											
Transfers Out	-	-	-	-	(68,385)	-	-	-	-	-	(68,385)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>											
	-	-	-	-	(68,385)	-	-	-	-	-	(68,385)
<b>Net Change in Fund Balance</b>	<b>317,811</b>	<b>23,090</b>	<b>(8,473)</b>	<b>5,189</b>	<b>70,323</b>	<b>(1)</b>	<b>4,127</b>	<b>(96,884)</b>	<b>(2,410)</b>	<b>-</b>	<b>312,772</b>
Fund Balances, Beginning	1,186,062	344,722	340,386	15,826	310,481	11,271	63,741	96,884	11,679	-	2,381,052
Fund Balances, Ending	1,503,873	367,812	331,913	21,015	380,804	11,270	67,868	-	9,269	-	2,693,824

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 HOTEL OCCUPANCY FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Occupancy Tax	\$ 609,302	\$ 609,302	\$ 499,466	\$ (109,836)	\$ 544,871
Investment Earnings	2,150	2,150	12,295	10,145	3,953
<b>TOTAL REVENUES</b>	<u>611,452</u>	<u>611,452</u>	<u>511,761</u>	<u>(99,691)</u>	<u>548,824</u>
<b>EXPENDITURES</b>					
Current:					
General Government	146,590	146,590	127,545	19,045	179,731
Administration	-	-	66,405	(66,405)	-
<b>TOTAL EXPENDITURES</b>	<u>146,590</u>	<u>146,590</u>	<u>193,950</u>	<u>(47,360)</u>	<u>179,731</u>
Excess (Deficiency) of Revenues Over (Under) Expenses	464,862	464,862	317,811	(147,051)	369,093
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers Out	(114,405)	(114,405)	-	114,405	(48,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(114,405)</u>	<u>(114,405)</u>	<u>-</u>	<u>114,405</u>	<u>(48,000)</u>
<b>Net Change in Fund Balance</b>	350,457	350,457	317,811	(32,646)	321,093
<b>FUND BALANCE, BEGINNING</b>	1,186,062	1,186,062	1,186,062	-	864,969
<b>FUND BALANCE, ENDING</b>	<u>\$ 1,536,519</u>	<u>\$ 1,536,519</u>	<u>\$ 1,503,873</u>	<u>\$ (32,646)</u>	<u>\$ 1,186,062</u>

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 PARK FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Licenses and Permits	\$ 145,000	\$ 145,000	\$ 98,000	\$ (47,000)	\$ 132,000
Investment Earnings	1,250	1,250	3,716	2,466	728
Miscellaneous	-	-	-	-	870
<b>TOTAL REVENUES</b>	<u>146,250</u>	<u>146,250</u>	<u>101,716</u>	<u>(44,534)</u>	<u>133,598</u>
<b>EXPENDITURES</b>					
Current:					
Parks and Recreation	15,000	22,700	19,487	3,213	147
Capital Outlay	170,000	168,000	59,139	108,861	22,857
<b>TOTAL EXPENDITURES</b>	<u>185,000</u>	<u>190,700</u>	<u>78,626</u>	<u>112,074</u>	<u>23,004</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(38,750)	(44,450)	23,090	(67,540)	110,594
<b>OTHER FINANCING USES</b>					
Transfers In	38,750	44,450	-	44,450	-
<b>TOTAL OTHER FINANCING</b>	<u>38,750</u>	<u>44,450</u>	<u>-</u>	<u>44,450</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	-	-	23,090	(23,090)	110,594
<b>FUND BALANCE, BEGINNING</b>	344,722	344,722	344,722	-	234,128
<b>FUND BALANCE, ENDING</b>	<u>\$ 344,722</u>	<u>\$ 344,722</u>	<u>\$ 367,812</u>	<u>\$ (23,090)</u>	<u>\$ 344,722</u>

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 TREE MITIGATION FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)		2016 Actual Amounts
	Original	Final				
<b>REVENUES</b>						
Licenses and Permits	\$ 85,300	\$ 85,300	\$ 74,116	\$ (11,184)	\$ 127,288	
Miscellaneous	1,750	1,750	3,312	1,562	1,513	
<b>TOTAL REVENUES</b>	<u>87,050</u>	<u>87,050</u>	<u>77,428</u>	<u>(9,622)</u>	<u>128,801</u>	
<b>EXPENDITURES</b>						
Current:						
Parks and Recreation	142,000	142,000	85,901	56,099	119,564	
<b>TOTAL EXPENDITURES</b>	<u>142,000</u>	<u>142,000</u>	<u>85,901</u>	<u>56,099</u>	<u>119,564</u>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(54,950)	(54,950)	(8,473)	46,477	9,237	
<b>OTHER FINANCING USES</b>						
Transfers In	54,950	54,950	-	(54,950)	-	
<b>TOTAL OTHER FINANCING</b>	<u>54,950</u>	<u>54,950</u>	<u>-</u>	<u>(54,950)</u>	<u>-</u>	
Net Change in Fund Balance	-	-	(8,473)	(8,473)	9,237	
<b>FUND BALANCE, BEGINNING</b>	<u>340,386</u>	<u>340,386</u>	<u>340,386</u>	<u>-</u>	<u>331,149</u>	
<b>FUND BALANCE, ENDING</b>	<u>\$ 340,386</u>	<u>\$ 340,386</u>	<u>\$ 331,913</u>	<u>\$ (8,473)</u>	<u>\$ 340,386</u>	

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 TREASURY FORFEITURES FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)		2016 Actual Amounts
	Original	Final				
<b>REVENUES</b>						
Fines and Fees	\$ -	\$ -	\$ 5,143	\$ 5,143	\$ -	
Investment Earnings	-	-	46	46	2	
<b>TOTAL REVENUES</b>	<u>-</u>	<u>-</u>	<u>5,189</u>	<u>5,189</u>	<u>2</u>	
<b>EXPENDITURES</b>						
Current:						
Public Safety	-	-	-	-	-	
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Net Change in Fund Balance	-	-	5,189	5,189	2	
<b>FUND BALANCE, BEGINNING</b>	<u>15,826</u>	<u>15,826</u>	<u>15,826</u>	<u>-</u>	<u>15,824</u>	
<b>FUND BALANCE, ENDING</b>	<u>\$ 15,826</u>	<u>\$ 15,826</u>	<u>\$ 21,015</u>	<u>\$ 5,189</u>	<u>\$ 15,826</u>	



CITY OF SCHERTZ, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
JUSTICE FORFEITURES FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)		2016 Actual Amounts
	Original	Final				
<b>REVENUES</b>						
Fines and Fees	\$ 47,000	\$ 47,000	\$ 179,308	\$ 132,308	\$ 71,378	
Investment Earnings	-	-	2,972	2,972	1,259	
<b>TOTAL REVENUES</b>	<u>47,000</u>	<u>47,000</u>	<u>182,280</u>	<u>135,280</u>	<u>72,637</u>	
<b>EXPENDITURES</b>						
Current:						
Public Safety	(100,000)	(100,000)	19,418	(119,418)	6,637	
Capital Outlay	-	-	24,154	(24,154)	28,830	
<b>TOTAL EXPENDITURES</b>	<u>(100,000)</u>	<u>(100,000)</u>	<u>43,572</u>	<u>(143,572)</u>	<u>35,467</u>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	147,000	147,000	138,708	(8,292)	37,170	
<b>OTHER SOURCES (USES)</b>						
Transfers Out	-	-	(68,385)	(68,385)	-	
<b>TOTAL OTHER SOURCES</b>	<u>-</u>	<u>-</u>	<u>(68,385)</u>	<u>(68,385)</u>	<u>-</u>	
Net Change in Fund Balance	147,000	147,000	70,323	(76,677)	37,170	
<b>FUND BALANCE, BEGINNING</b>	<u>310,481</u>	<u>310,481</u>	<u>310,481</u>	<u>-</u>	<u>273,311</u>	
<b>FUND BALANCE, ENDING</b>	<u>\$ 457,481</u>	<u>\$ 457,481</u>	<u>\$ 380,804</u>	<u>\$ (76,677)</u>	<u>\$ 310,481</u>	

CITY OF SCHERTZ, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
STATE FORFEITURES FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)		2016 Actual Amounts
	Original	Final				
<b>REVENUES</b>						
Fines and Fees	\$ -	\$ -	\$ 11,205	\$ 11,205	\$ 26,860	
Investment Earnings	-	-	28	28	1	
<b>TOTAL REVENUES</b>	<u>-</u>	<u>-</u>	<u>11,233</u>	<u>11,233</u>	<u>26,861</u>	
<b>EXPENDITURES</b>						
Current:						
Public Safety	-	-	5,034	(5,034)	31,328	
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>11,234</u>	<u>(11,234)</u>	<u>31,328</u>	
Net Change in Fund Balance	-	-	(1)	(1)	(4,467)	
<b>FUND BALANCE, BEGINNING</b>	<u>11,271</u>	<u>11,271</u>	<u>11,271</u>	<u>-</u>	<u>15,738</u>	
<b>FUND BALANCE, ENDING</b>	<u>\$ 11,271</u>	<u>\$ 11,271</u>	<u>\$ 11,270</u>	<u>\$ (1)</u>	<u>\$ 11,271</u>	

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 LIBRARY ADVISORY BOARD  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Service Fees	\$ 22,000	\$ 22,000	\$ 23,381	\$ 1,381	\$ 21,846
Investment Earnings	60	60	516	456	241
Miscellaneous	1,000	1,000	108	(892)	390
<b>TOTAL REVENUES</b>	<u>23,060</u>	<u>23,060</u>	<u>24,005</u>	<u>945</u>	<u>22,477</u>
<b>EXPENDITURES</b>					
Current:					
Cultural	22,000	22,000	19,878	2,122	25,519
<b>TOTAL EXPENDITURES</b>	<u>22,000</u>	<u>22,000</u>	<u>19,878</u>	<u>2,122</u>	<u>25,519</u>
<b>Net Change in Fund Balance</b>	1,060	1,060	4,127	3,067	(3,042)
<b>FUND BALANCE, BEGINNING</b>	63,741	63,741	63,741	-	66,783
<b>FUND BALANCE, ENDING</b>	<u>\$ 64,801</u>	<u>\$ 64,801</u>	<u>\$ 67,868</u>	<u>\$ 3,067</u>	<u>\$ 63,741</u>

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 HISTORICAL COMMITTEE FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)	2016 Actual Amounts
	Original	Final			
<b>REVENUES</b>					
Sale of Merchandise	\$ 1,000	\$ 1,000	\$ 499	\$ (501)	1,675
<b>TOTAL REVENUES</b>	<u>1,000</u>	<u>1,000</u>	<u>499</u>	<u>(501)</u>	<u>1,675</u>
<b>EXPENDITURES</b>					
Current:					
General Government	11,750	11,750	2,909	8,841	3,835
<b>TOTAL EXPENDITURES</b>	<u>11,750</u>	<u>11,750</u>	<u>2,909</u>	<u>8,841</u>	<u>3,835</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(10,750)</u>	<u>(10,750)</u>	<u>(2,410)</u>	<u>8,340</u>	<u>(2,160)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	10,750	10,750	-	(10,750)	3,835
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>10,750</u>	<u>10,750</u>	<u>-</u>	<u>(10,750)</u>	<u>3,835</u>
<b>Net Change in Fund Balance</b>	-	-	(2,410)	(2,410)	1,675
<b>FUND BALANCE, BEGINNING</b>	11,679	11,679	11,679	-	10,004
<b>FUND BALANCE, ENDING</b>	<u>\$ 11,679</u>	<u>\$ 11,679</u>	<u>\$ 9,269</u>	<u>\$ (2,410)</u>	<u>\$ 11,679</u>

CITY OF SCHERTZ, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL  
 PARKS AND RECREATION FOUNDATION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budgeted Amounts		2017 Actual Amounts	Variance with Final Budget- Positive (Negative)	2016 Actual Amounts	
	Original	Final				
<b>REVENUES</b>						
Charges and Fees at Events	\$ -	\$ -	\$ 575	\$ 575	\$ 154,860	
Investment Earnings	-	-	12	12	50	
Miscellaneous Income and Donations	-	-	101	101	23,296	
<b>TOTAL REVENUES</b>	-	-	<b>688</b>	<b>688</b>	<b>178,206</b>	
<b>EXPENDITURES</b>						
Current						
Parks and Recreation	-	-	97,572	(97,572)	235,575	
Capital Outlay	-	-	-	-	1,170	
<b>TOTAL EXPENDITURES</b>	-	-	<b>97,572</b>	<b>(97,572)</b>	<b>236,745</b>	
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	-	-	<b>(96,884)</b>	<b>(96,884)</b>	<b>(58,539)</b>	
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	-	-	-	-	48,000	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	-	-	-	<b>48,000</b>	
<b>Net Change in Fund Balance</b>	-	-	<b>(96,884)</b>	<b>(96,884)</b>	<b>(10,539)</b>	
<b>FUND BALANCE, BEGINNING</b>	96,884	96,884	<b>96,884</b>	-	107,423	
<b>FUND BALANCE, ENDING</b>	<b>\$ 96,884</b>	<b>\$ 96,884</b>	<b>\$ -</b>	<b>\$ (96,884)</b>	<b>\$ 96,884</b>	

STATISTICAL SECTION

This part of the City of Schertz's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

*Financial Trends (Tables 1 through 4)*

Net Position by Component  
 Change in Net Position  
 Fund Balances, Governmental Funds  
 Changes in Fund Balances, Governmental Funds

*These schedules contain trend information to help reader understand how the City's financial performance and well-being have changed over time.*

*Revenue Capacity (Tables 5 through 12)*

Tax Revenues by Source, Governmental Funds  
 Total Water and Sewer Consumption and Rates  
 Principal Water and Sewer Consumers  
 Assessed Value and Estimated Actual Value of Taxable Property  
 Direct and Overlapping Property Tax Rates  
 Principal Property Taxpayers  
 Property Tax Levies and Collections  
 Taxable Assessed Value

*These schedules contain information to help readers assess the factors affecting the City's ability to generate its property and sales tax.*

*Debt Capacity (Tables 13 through 17)*

Ratios of Outstanding Debt by Type  
 Ratios of General Bonded Debt Outstanding  
 Direct and Overlapping Governmental Activities Debt  
 Debt Margin Information  
 Pledged Revenue Coverage

*These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.*

*Demographic and Economic Information (Tables 18 through 19)*

Demographic and Economic Statistics  
 Principal Employers

*These schedules offer demographic and economic indicators to help the reader understand how the City's financial activities take place and to help make comparisons over time and with other governments.*

*Operating Information (Tables 20 through 22)*

Full-time Equivalent City Government Employees by Function  
 Operating Indicators by Function/Program  
 Capital Asset Statistics by Function/Program

*These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.*

CITY OF SCHERTZ, TEXAS  
NET POSITION, BY COMPONENT  
LAST TEN FISCAL YEARS

TABLE 1

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<i>Governmental Activities</i>										
Net Investment in Capital Assets	\$ 47,327,175	\$ 57,324,482	\$ 54,010,139	\$ 55,415,699	\$ 56,616,809	\$ 57,543,618	\$ 62,792,671	\$ 68,125,738	\$ 74,237,004	\$ 84,537,238
Restricted	1,058,514	1,170,786	897,324	2,089,971	1,917,098	7,788,354	10,401,728	13,343,280	17,095,325	20,437,116
Unrestricted	11,029,326	3,650,287	7,548,859	7,370,101	8,907,326	6,645,418	8,613,239	1,640,519	2,231,341	1,673,567
<i>Total Governmental Activities</i>										
<i>Net Position</i>	\$ 59,415,015	\$ 62,145,555	\$ 62,456,322	\$ 64,875,771	\$ 67,441,233	\$ 71,977,390	\$ 81,807,638	\$ 83,109,537	\$ 93,563,670	\$ 106,647,921
<i>Business-Type Activities</i>										
Net Investment in Capital Assets	\$ 41,350,184	\$ 50,047,301	\$ 50,778,490	\$ 51,838,589	\$ 50,161,157	\$ 53,071,836	\$ 53,674,437	\$ 59,625,205	\$ 64,210,231	\$ 70,361,035
Restricted	-	-	-	-	-	-	-	-	-	-
Unrestricted	10,286,447	3,633,244	4,217,098	7,441,722	11,577,645	11,902,282	16,450,988	14,243,922	15,737,470	20,781,291
<i>Total Business-Type Activities</i>										
<i>Net Position</i>	\$ 51,636,631	\$ 53,680,545	\$ 54,995,588	\$ 59,280,311	\$ 61,738,802	\$ 64,974,118	\$ 70,125,425	\$ 73,869,127	\$ 79,947,701	\$ 91,142,326
<i>Primary Government</i>										
Net Investment in Capital Assets	\$ 88,677,359	\$ 107,371,783	\$ 104,788,629	\$ 107,254,288	\$ 106,777,966	\$ 110,615,454	\$ 116,467,108	\$ 127,750,943	\$ 138,447,235	\$ 154,898,273
Restricted	1,058,514	1,170,786	897,324	2,089,971	1,917,098	7,788,354	10,401,728	13,343,280	17,095,325	20,437,116
Unrestricted	21,315,773	7,283,531	11,765,957	14,811,823	20,484,971	18,547,700	25,064,227	15,884,441	17,968,811	22,454,858
<i>Total Primary Government Net Position</i>	\$ 111,051,646	\$ 115,826,100	\$ 117,451,910	\$ 124,156,082	\$ 129,180,035	\$ 136,951,508	\$ 151,933,063	\$ 156,978,664	\$ 173,511,371	\$ 197,790,247

Note – GASB Statement No. 68 has been prospectively implemented in year-end 2015.

CITY OF SCHERTZ, TEXAS  
CHANGE IN NET POSITION  
LAST TEN FISCAL YEARS

TABLE 2

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Expenses</b>										
<i>Governmental Activities</i>										
General Government	\$ 7,093,762	\$ 7,987,977	\$ 7,892,516	\$ 8,112,954	\$ 7,802,092	\$ 7,066,087	\$ 6,958,530	\$ 6,443,227	\$ 6,557,778	\$ 6,253,926
Public Safety	7,227,406	7,755,056	7,897,298	8,390,740	9,103,676	9,567,595	10,025,703	10,836,712	12,141,968	13,061,120
Public Environment	2,300,425	2,740,755	2,966,642	3,152,119	3,586,087	3,622,834	3,740,538	3,876,644	4,147,653	4,460,540
Parks and Recreation	1,184,866	1,193,525	1,593,075	1,673,098	1,584,605	1,807,559	1,870,136	2,164,604	2,034,964	2,859,974
Cultural	492,991	769,928	809,323	876,339	916,967	907,676	870,159	892,194	954,871	1,004,747
Health	330,736	377,125	345,455	374,516	357,658	344,647	407,114	470,468	570,204	776,494
Administration	1,364,194	734,584	1,084,430	1,321,055	1,117,044	1,180,656	1,942,312	1,845,877	1,954,276	3,052,102
Interest and Other Fees	1,984,151	1,818,984	2,230,452	2,251,472	2,302,912	3,340,951	2,352,856	2,226,635	2,240,783	2,355,714
<b>Total Governmental Activities Expenses</b>	<b>21,978,531</b>	<b>23,377,934</b>	<b>24,819,191</b>	<b>26,152,293</b>	<b>26,771,041</b>	<b>27,838,005</b>	<b>28,104,348</b>	<b>28,756,361</b>	<b>30,602,497</b>	<b>33,824,617</b>
<i>Business-Type Activities</i>										
Water and Sewer	12,379,584	13,568,065	14,434,709	15,280,871	16,349,967	16,954,871	17,762,116	18,440,959	20,269,111	21,346,078
EMS	2,976,112	3,365,544	3,690,007	3,659,031	3,758,425	3,959,445	4,268,125	4,719,526	5,004,110	6,006,178
<b>Total Business-Type Activities</b>	<b>15,355,696</b>	<b>16,933,609</b>	<b>18,124,716</b>	<b>18,939,902</b>	<b>20,108,392</b>	<b>20,914,316</b>	<b>22,030,241</b>	<b>23,160,485</b>	<b>25,273,221</b>	<b>27,352,256</b>
<b>Total Primary Government Expenses</b>	<b>\$ 37,334,227</b>	<b>\$ 40,311,543</b>	<b>\$ 42,943,907</b>	<b>\$ 45,092,195</b>	<b>\$ 46,879,433</b>	<b>\$ 48,752,321</b>	<b>\$ 50,134,589</b>	<b>\$ 51,916,846</b>	<b>\$ 55,875,718</b>	<b>\$ 61,176,873</b>
<b>Program Revenues</b>										
<i>Governmental Activities</i>										
Charges for Service:										
General Government	\$ 1,497,472	\$ 1,720,279	\$ 1,905,600	\$ 1,495,563	\$ 2,286,488	\$ 2,230,800	\$ 1,974,637	\$ 1,840,547	\$ 1,507,252	\$ 874,737
Public Safety	1,643,635	1,481,004	1,986,536	2,815,029	2,216,385	2,516,547	2,536,476	2,603,476	2,415,537	4,131,548
Parks and Recreation	155,168	273,917	536,609	524,443	541,512	721,222	917,639	794,003	788,727	544,460
Cultural	219,749	219,029	265,714	228,242	279,267	305,932	309,897	325,178	326,079	330,412
Health	41,390	33,930	36,728	39,743	36,746	38,149	32,429	26,744	30,308	29,742
Operating Grants and Contributions	595,401	1,044,884	587,643	717,105	764,997	234,084	220,264	336,252	342,485	552,878
Capital Grants and Contributions	12,595,635	3,023,377	1,276,465	2,998,115	1,178,573	1,531,740	5,756,456	5,509,530	6,227,664	10,043,483
<b>Total Governmental Activities</b>	<b>16,748,450</b>	<b>7,796,420</b>	<b>6,595,295</b>	<b>8,818,240</b>	<b>7,303,968</b>	<b>7,578,474</b>	<b>11,747,798</b>	<b>11,435,730</b>	<b>11,638,052</b>	<b>16,507,260</b>
<i>Business-Type Activities</i>										
Charges for Service:										
Water and Sewer	13,620,440	14,668,137	15,147,332	17,073,075	17,411,568	17,696,327	19,147,872	20,700,369	22,003,794	25,390,713
EMS	3,150,428	2,889,518	3,061,414	3,564,852	3,561,114	4,459,600	4,533,753	4,415,126	5,921,223	6,366,894
Capital Grants and Contributions	5,190,039	2,241,726	973,437	2,175,889	828,853	1,301,235	2,809,110	4,158,552	2,831,126	6,111,474
<b>Total Business-Type Activities</b>	<b>21,960,907</b>	<b>19,799,381</b>	<b>19,182,183</b>	<b>22,813,816</b>	<b>21,801,535</b>	<b>23,457,162</b>	<b>26,490,735</b>	<b>29,274,047</b>	<b>30,756,143</b>	<b>37,869,081</b>
<b>Total Primary Government</b>	<b>\$ 38,709,357</b>	<b>\$ 27,595,801</b>	<b>\$ 25,777,478</b>	<b>\$ 31,632,056</b>	<b>\$ 29,105,503</b>	<b>\$ 31,035,636</b>	<b>\$ 38,238,533</b>	<b>\$ 40,709,777</b>	<b>\$ 42,394,195</b>	<b>\$ 54,376,341</b>

Note – GASB Statement No. 68 has been prospectively implemented in year-end 2015.



CITY OF SCHERTZ, TEXAS  
 FUNDBALANCES - GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS

TABLE 3

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Nonspendable Fund Balance:</b>										
Inventory	\$ 46,014	\$ 44,217	\$ 46,473	\$ 43,504	\$ 63,556	\$ 50,768	\$ 88,518	\$ 101,084	\$ 107,529	\$ 98,263
Prepaid Items	-	-	-	-	2,367	754,443	21,735	16,000	112,974	-
Note Receivable	-	-	150,000	120,080	120,080	120,080	-	-	-	-
<b>Total Nonspendable Fund Balance</b>	<b>46,014</b>	<b>44,217</b>	<b>196,473</b>	<b>163,584</b>	<b>186,003</b>	<b>925,291</b>	<b>110,253</b>	<b>117,084</b>	<b>220,503</b>	<b>98,263</b>
<b>Restricted Fund Balance:</b>										
Police and Public Safety	394,122	355,451	421,265	403,799	338,118	496,890	529,264	494,337	555,722	514,931
Municipal Court	269,961	332,117	402,744	459,244	527,513	646,422	628,459	683,558	714,609	728,350
PEG Capital Fees	-	-	-	317,453	409,870	456,175	489,509	509,535	577,590	638,506
Capital Improvement	16,416,440	14,342,553	3,914,323	10,219,300	17,104,595	15,360,800	9,600,028	8,924,587	11,665,693	16,915,997
Debt Service	429,289	444,369	286,215	117,250	227,674	517,199	625,435	847,178	1,311,577	1,450,082
Tourism Development	502,883	180,710	250,379	301,517	390,561	470,250	501,996	848,969	1,186,062	1,503,873
Tree Mitigation	271,071	191,834	164,424	173,999	217,600	157,659	359,205	331,149	340,386	331,913
Parks	169,529	120,501	79,317	84,329	90,718	136,647	304,655	341,551	441,606	367,812
Historical Committee & Library	68,207	163,661	200,359	231,686	65,409	77,554	78,098	76,787	75,420	77,137
Economic Development Corporation	2,331,951	2,543,010	3,548,067	3,394,850	4,366,005	6,022,128	7,792,578	9,821,747	12,227,179	15,069,421
Animal Control	-	-	-	-	-	-	-	-	18,667	35,660
Veterans	-	-	-	-	-	-	-	-	4,985	4,796
Scholarships	-	-	-	-	-	-	54,176	60,944	63,048	77,458
<b>Total Restricted Fund Balance</b>	<b>20,853,453</b>	<b>18,674,206</b>	<b>9,267,093</b>	<b>15,703,427</b>	<b>23,738,063</b>	<b>24,341,724</b>	<b>20,963,403</b>	<b>22,940,342</b>	<b>29,182,544</b>	<b>37,715,936</b>
<b>Committed Fund Balance:</b>										
Capital Improvement	-	-	-	-	-	165,000	31,718	-	342,519	454,376
<b>Total Assigned Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>165,000</b>	<b>31,718</b>	<b>-</b>	<b>342,519</b>	<b>454,376</b>
<b>Assigned Fund Balance:</b>										
Property Replacement	400,247	201,850	202,341	202,723	322,656	456,034	694,916	785,005	752,503	854,198
Special Events	88,778	62,263	142,465	93,447	92,555	99,770	31,177	6,657	6,743	-
Capital Improvement	-	-	-	162,113	243,546	145,167	-	-	-	-
Recycling	14,748	-	-	-	-	-	-	-	-	-
Historical Committee	-	10,149	9,940	9,940	-	-	-	-	-	-
Youth Activities	-	-	-	-	11,090	-	-	-	-	-
<b>Total Assigned Fund Balance</b>	<b>503,773</b>	<b>274,262</b>	<b>354,746</b>	<b>468,223</b>	<b>669,847</b>	<b>700,971</b>	<b>726,093</b>	<b>791,662</b>	<b>759,246</b>	<b>854,198</b>
<b>Unassigned Fund Balance</b>	<b>5,269,890</b>	<b>1,209,451</b>	<b>1,372,779</b>	<b>1,899,105</b>	<b>2,560,667</b>	<b>4,206,734</b>	<b>5,587,262</b>	<b>7,280,240</b>	<b>8,509,467</b>	<b>9,976,169</b>
<b>Total Governmental Funds</b>	<b>\$ 26,673,130</b>	<b>\$ 20,202,136</b>	<b>\$ 11,191,091</b>	<b>\$ 18,234,339</b>	<b>\$ 27,154,580</b>	<b>\$ 30,339,720</b>	<b>\$ 27,418,729</b>	<b>\$ 31,129,328</b>	<b>\$ 39,014,279</b>	<b>\$ 49,098,942</b>

CITY OF SCHERTZ, TEXAS  
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS

TABLE 4

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>REVENUES</b>										
Taxes	\$ 15,583,058	\$ 16,786,590	\$ 17,811,547	\$ 19,309,675	\$ 21,401,991	\$ 24,181,863	\$ 26,021,730	\$ 27,348,297	\$ 28,865,727	\$ 29,720,578
Permits and Fees	992,953	822,105	1,160,197	1,776,292	1,363,461	1,609,954	1,805,047	1,731,302	1,493,336	2,540,045
Service Fees	1,018,197	973,781	1,492,130	1,645,489	1,547,007	1,739,387	1,763,964	1,797,151	1,789,321	2,132,299
Fines and Fees	1,387,677	1,517,821	1,655,183	1,452,610	2,027,613	1,927,744	1,750,311	1,534,588	1,441,474	1,217,621
Intergovernmental	4,376,072	1,444,966	570,386	1,216,211	1,000,413	492,332	221,769	393,607	401,494	397,073
Other Revenue	1,864,877	1,066,097	1,161,182	603,498	969,921	767,110	671,731	689,805	1,741,436	1,897,153
<b>TOTAL REVENUES</b>	<b>25,222,834</b>	<b>22,611,360</b>	<b>23,850,625</b>	<b>26,003,775</b>	<b>28,310,406</b>	<b>30,718,390</b>	<b>32,234,552</b>	<b>33,494,750</b>	<b>35,732,788</b>	<b>37,904,769</b>
<b>EXPENDITURES</b>										
Current:										
General Government	6,184,705	6,765,315	6,989,561	7,164,667	7,094,834	6,311,276	5,981,439	5,582,441	5,657,998	5,394,918
Public Safety	6,638,352	7,235,501	7,409,720	7,885,119	8,690,849	9,113,840	9,409,894	10,158,401	11,048,767	11,870,636
Public Environment	745,307	884,158	816,939	846,150	976,327	951,528	1,012,607	952,663	1,007,326	1,128,979
Parks and Recreation	800,079	869,166	1,178,455	1,195,171	1,398,692	1,412,329	1,338,232	1,658,197	1,528,356	1,885,915
Cultural	667,995	821,048	872,668	937,611	845,124	840,595	815,691	821,146	869,162	921,870
Health	295,156	348,448	331,860	360,746	346,318	341,961	394,918	404,008	480,175	672,934
Administration	1,517,785	941,675	1,251,368	1,506,831	1,249,557	1,289,078	2,270,041	2,056,646	2,015,573	2,912,855
Capital Outlay	19,189,505	14,963,950	11,347,876	2,956,511	1,299,843	3,277,397	8,000,467	2,314,668	10,192,398	5,492,196
Debt Service:										
Principal	2,025,043	4,816,928	1,893,086	2,371,070	2,704,898	3,217,325	3,695,597	3,918,008	4,040,975	4,473,174
Interest and Fiscal Charges	1,617,876	1,987,384	2,183,852	2,066,221	2,313,510	2,381,171	2,108,610	2,112,746	1,896,911	2,113,679
Bond Issue Costs	122,290	191,066	20,000	244,237	254,971	31,750	165,650	7,992	449,358	214,280
<b>TOTAL EXPENDITURES</b>	<b>39,804,093</b>	<b>39,824,639</b>	<b>34,295,385</b>	<b>27,534,334</b>	<b>27,174,923</b>	<b>29,168,250</b>	<b>35,193,146</b>	<b>29,986,916</b>	<b>39,186,999</b>	<b>37,081,436</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(14,581,259)	(17,213,279)	(10,444,760)	(1,530,559)	1,135,483	1,550,140	(2,958,594)	3,507,834	(3,454,211)	823,333
<b>OTHER FINANCING</b>										
<b>SOURCES (USES)</b>										
Bonds & Debt Issuances	9,900,000	9,681,678	1,418,294	8,206,572	14,370,000	1,635,000	8,583,715	245,000	10,750,000	8,870,000
Refunding Bond Issuance	-	-	-	-	-	-	-	-	4,185,000	-
Premium (Discount) on Bond Issue	-	-	-	283,000	175,473	-	686,137	-	590,432	381,931
Payment to Refund Agent	-	-	-	-	(6,698,421)	-	(9,182,250)	-	(4,215,482)	-
Transfers In	593,294	2,778,593	242,539	348,846	139,635	788,084	1,243,833	989,120	863,583	438,803
Transfers (Out)	(593,294)	(1,717,986)	(227,118)	(264,611)	(201,929)	(788,084)	(1,293,832)	(1,031,355)	(834,371)	(429,404)
<b>TOTAL OTHER FINANCING</b>	<b>9,900,000</b>	<b>10,742,285</b>	<b>1,433,715</b>	<b>8,573,807</b>	<b>7,784,758</b>	<b>1,635,000</b>	<b>37,603</b>	<b>202,765</b>	<b>11,339,162</b>	<b>9,261,330</b>
<b>SOURCES (USES)</b>										
<b>NET CHANGE IN FUND BALANCE</b>	<b>(4,681,259)</b>	<b>(6,470,994)</b>	<b>(9,011,045)</b>	<b>7,043,248</b>	<b>8,920,241</b>	<b>3,185,140</b>	<b>(2,920,991)</b>	<b>3,710,599</b>	<b>7,884,951</b>	<b>10,084,663</b>
Debt Service as a percentage of Noncapital Expenditures	14.6%	26.1%	17.7%	17.4%	19.5%	21.6%	21.3%	21.3%	20.5%	20.4%



CITY OF SCHERTZ, TEXAS  
 TAX REVENUE BY SOURCE – GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS

TABLE 5

Fiscal Year	Property	Sales & Use	Franchise	Mixed Beverage	Bingo	Hotel Occupancy	Total Revenue
2017	\$ 16,125,537	\$ 10,844,503	\$ 2,208,373	\$ 42,668	\$ 31	\$ 499,466	\$ 29,720,578
2016	15,105,480	10,921,489	2,250,815	43,072	1	544,870	28,865,727
2015	14,161,999	10,315,125	2,263,783	43,553	103	563,734	27,348,297
2014	12,802,668	10,553,382	2,073,162	39,917	31	552,570	26,021,730
2013	12,329,999	9,637,097	1,681,079	30,421	-	503,267	24,181,863
2012	11,287,191	7,968,212	1,647,712	28,586	-	470,290	21,401,991
2011	10,286,251	7,054,394	1,542,046	33,630	2,173	391,181	19,309,675
2010	9,737,236	6,240,749	1,448,620	32,144	4,651	348,147	17,811,547
2009	8,964,642	6,017,781	1,462,199	31,790	5,105	305,073	16,786,590
2008	7,855,984	6,175,759	1,240,642	32,364	4,751	273,558	15,583,058

CITY OF SCHERTZ, TEXAS  
 TOTAL WATER AND SEWER CONSUMPTION AND RATES  
 LAST TEN FISCAL YEARS

TABLE 6

Fiscal Year Ended September 30,	Total Water & Sewer Consumption (In Gallons)	Water & Sewer Base Rate	Water & Sewer Initial Rate Per 1,000 Gallons
2017	1,583,462,300	\$ 23.19	\$ 2.86
2016	1,509,250,000	20.89	2.58
2015	1,472,948,300	19.71	2.43
2014	1,543,351,600	19.32	2.39
2013	1,550,039,700	18.94	2.34
2012	1,604,952,300	18.94	2.34
2011	1,676,323,900	18.94	2.34
2010	1,231,376,600	18.94	2.25
2009	1,511,567,900	18.94	2.16
2008	855,779,200	15.94	1.92

CITY OF SCHERTZ, TEXAS  
 PRINCIPAL WATER AND SEWER CONSUMERS  
 CURRENT YEAR AND NINE YEARS AGO

TABLE 7

Consumers	2017			2008		
	Total Water Consumption (in Gallons)	Rank	Percentage of Total City Water Consumption	Total Water Consumption (in Gallons)	Rank	Percentage of Total City Water Consumption
Caterpillar Inc.	18,837,200	1	1.17%			
Scenic Hill Lawn Care	12,896,100	2	0.80%			
Schertz 1518	12,586,700	3				
Beck ReadyMix Concrete	10,546,200	4				
Pecan Grove TX LLC	8,132,300	5	0.51%			
Sycamore Creek Apartments	7,871,300	6	0.49%	4,714,000	9	0.33%
Big Time Management Properties	7,372,600	7	0.46%			0.00%
Sebastian Apartments	6,740,000	8				
Waterford Ridge Apartments	6,131,700	9				
Wal-mart Supercenter	5,928,400	10	0.37%	5,831,400	6	0.40%
Beck ReadyMix				11,685,700	1	0.81%
Protogis Trust				9,139,400	2	0.63%
Pecan Grove Investments				7,751,000	3	0.54%
Landscape of Texas				6,946,900	4	0.48%
AOH-Vantage at Schertz, LLC				6,162,100	5	0.43%
Lack's				5,644,100	7	0.39%
Legacy Oaks Apartments				5,236,200	8	0.36%
Samuel Clemens High Schools				4,110,800	10	0.28%
<b>TOTAL</b>	<b>97,042,500</b>		<b>3.79%</b>	<b>67,221,600</b>		<b>4.65%</b>
Total City Water Consumption	1,609,793,100			1,446,023,900		

CITY OF SCHERTZ, TEXAS  
 ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS

TABLE 8

Fiscal Year Ended September 30,	Total Taxable Assessed Value	Total Direct Tax Rate
2017	\$ 3,647,504,903	0.4911
2016	3,375,850,131	0.4911
2015	3,037,267,611	0.4974
2014	2,752,562,574	0.4974
2013	2,600,365,551	0.4999
2012	2,411,270,623	0.4843
2011	2,363,893,708	0.4493
2010	2,342,355,490	0.4342
2009	2,230,825,045	0.4090
2008	2,221,073,744	0.4090

Source: *Bexar, Comal and Guadalupe County Appraisal Districts*

NOTES: *Property in the City of Schertz is reassessed every year at estimated actual value. For this reason, assessed value is equal to estimated actual value. Tax rates are per \$100 of assessed value. Total taxable assessed value is before any applicable freeze adjustments.*

CITY OF SCHERTZ, TEXAS  
DIRECT AND OVERLAPPING PROPERTY TAX RATES  
LAST TEN FISCAL YEARS  
(UNAUDITED)

TABLE 9

Fiscal Year	City Direct Rates			Overlapping School Districts		
	Basic Rate	Debt Service	Total	Schertz-Cibolo-Universal City, ISD	Comal ISD	
2017	0.3168	0.1743	0.4911	1.4700	1.3900	
2016	0.3159	0.1752	0.4911	1.4900	1.3900	
2015	0.3164	0.1810	0.4974	1.4900	1.3900	
2014	0.3010	0.1964	0.4974	1.4900	1.4300	
2013	0.2993	0.2006	0.4999	1.4600	1.4300	
2012	0.2993	0.1850	0.4843	1.4350	1.4300	
2011	0.2993	0.1500	0.4493	1.4350	1.3700	
2010	0.2842	0.1500	0.4342	1.4200	1.3100	
2009	0.2590	0.1500	0.4090	1.3850	1.3100	
2008	0.2590	0.1500	0.4090	1.3150	1.3100	

Fiscal Year	Overlapping Counties					
	Bexar		Community College District		Guadalupe	
	County	Hospital District	River Authority	County	County	County
2017	0.2933	0.2762	0.0173	0.1492	0.2928	0.3449
2016	0.2975	0.2762	0.0173	0.1492	0.3429	0.3311
2015	0.3269	0.2762	0.0178	0.1492	0.3504	0.3999
2014	0.3269	0.2762	0.0174	0.1492	0.3504	0.4036
2013	0.3269	0.2762	0.0174	0.1416	0.3504	0.4036
2012	0.3269	0.2762	0.0167	0.1416	0.3340	0.3999
2011	0.3269	0.2662	0.0160	0.1359	0.3130	0.3895
2010	0.3269	0.2610	0.0160	0.1359	0.3080	0.3895
2009	0.3269	0.2374	0.0160	0.1346	0.3180	0.3895
2008	0.3269	0.2439	0.0160	0.1371	0.3152	0.4031

Source: Bexar, Comal and Guadalupe County Tax Offices

NOTE: Overlapping rates are those of local and county governments that apply within the City of Schertz. Not all overlapping rates apply to all City of Schertz property owners.

CITY OF SCHERTZ, TEXAS  
PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND NINE YEARS AGO

TABLE 10

Taxpayer	2017			2008		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Caterpillar Inc.	\$ 141,584,070	1	3.88%			
SYSCO San Antonio, Inc.	105,604,943	3	2.90%			
Amazon.com KYDC, LLC	80,897,236	2	2.22%			
US Real Estate, LP	57,155,244	4	1.57%			
Republic Beverage Co. Distribution	49,373,850	6	1.35%			
Visionary Properties	40,740,300	7	1.12%			
GE Oil & Gas	31,044,393	5	0.85%			
Shell US Gas & Power LLC	27,182,290	8	0.75%			
San Antonio MTA LP	24,351,699	9	0.67%			
SC Schertz LLC	23,430,800	10	0.64%			
Sprint Spectrum, LP				23,048,580	1	1.04%
Wal-Mart Real Estate Business Trust				16,699,920	2	1.23%
H.E.B. Grocery Co.				14,804,831	3	0.67%
EM Limited Partnership				11,958,400	4	
Eye Care Centers of America, Inc.				11,136,474	6	0.50%
Lowe's Home Center Inc.				11,298,734	5	0.51%
Prologis North American Properties Fund				10,010,608	7	0.45%
GD Bar Family Ltd. Partnership				9,104,240	8	0.41%
Atlantic Financial Group, Ltd.				8,589,227	9	0.39%
				8,566,675	10	0.39%
TOTALS	\$ 581,364,825		15.94%	\$ 125,217,689		5.58%
TOTAL TAXABLE ASSESSED VALUE	\$ 3,647,504,903			\$ 2,221,073,744		

Source: Bexar, Comal and Guadalupe County Appraisal Districts

CITY OF SCHERTZ, TEXAS  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(UNAUDITED)

TABLE 11

Fiscal Year Ended September 30,	Taxes Levied for the Fiscal Year	Collected Within Fiscal Year of Levy		Collections In Subsequent Years	Total Collections To Date		% of Levy
		Amount	% of Levy		Amount	% of Levy	
2017	\$ 17,356,822	\$ 17,241,556	99.34%	\$ -	\$ 17,241,556	99.34%	
2016	16,238,180	16,160,248	99.52%	43,500	16,203,748	99.79%	
2015	14,793,867	14,738,760	99.63%	40,391	14,779,151	99.90%	
2014	13,383,759	13,297,258	99.35%	64,948	13,362,206	99.84%	
2013	12,536,540	12,455,336	99.35%	70,027	12,525,363	99.91%	
2012	11,239,572	11,159,974	99.29%	70,626	11,230,600	99.92%	
2011	9,978,430	9,895,240	99.17%	75,817	9,971,057	99.93%	
2010	9,639,945	9,559,899	99.17%	73,205	9,633,104	99.93%	
2009	8,800,927	8,703,978	98.90%	91,252	8,795,230	99.94%	
2008	7,793,405	7,711,714	98.95%	77,047	7,788,761	99.94%	

Source: Guadalupe County Tax Office

CITY OF SCHERTZ, TEXAS  
TAXABLE ASSESSED VALUE  
LAST TEN FISCAL YEARS  
(UNAUDITED)

TABLE 12

Fiscal Year Ended September 30,	Taxable Value January 1,	Residential Property	Commercial Property	Tax-Exempt Property	Other Property	Total Taxable Assessed Value*	Total Direct Tax Rate		
								2017	2016
2017	\$ 1,895,085,016	\$ 2,269,590,522	\$ 649,173,041	\$ 132,002,406	\$ 3,647,504,903	0.4911			
2016	1,702,601,947	2,087,223,204	544,328,535	130,553,515	3,375,850,131	0.4911			
2015	1,568,651,309	1,793,803,709	460,271,461	135,084,054	3,037,807,611	0.4974			
2014	1,445,731,589	1,540,565,195	340,747,650	107,013,520	2,752,562,574	0.4974			
2013	1,383,423,359	1,396,349,905	285,245,142	105,837,429	2,600,365,551	0.4999			
2012	1,337,223,390	1,233,687,039	262,591,896	102,952,090	2,411,270,623	0.4843			
2011	1,272,970,256	1,253,600,729	280,015,063	117,337,786	2,363,893,708	0.4493			
2010	1,234,950,439	1,237,284,878	251,217,268	121,337,441	2,342,355,490	0.4342			
2009	1,169,845,869	1,191,387,341	248,544,582	118,136,417	2,230,825,045	0.4090			
2008	1,096,587,777	1,276,925,393	345,068,394	192,628,968	2,221,073,744	0.4090			

\*Taxable Assessed Value is before any applicable freeze adjustments.

Source: Bexar, Comal, and Guadalupe County Appraisal Districts.

CITY OF SCHERTZ, TEXAS  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS

TABLE 13

Fiscal Year	Governmental Activities					Business-Type Activities							
	General Obligation Bonds	Certificates of Obligation	Tax Notes	Capital Lease	Revenue Bonds	Certificates of Obligation	Public Facility Loan	General Obligation Bonds	Capital Lease	Tax Notes	Total Primary Government	Percent of Gross Income	Per Capita
2017	\$ 56,613,614	\$ 9,011,415	\$ 1,230,000	\$ 25,147	\$ -	\$ 8,174,779	\$ -	\$ 2,533,626	\$ 92,721	\$ 1,065,000	\$ 78,746,302	6.22%	1,996
2016	56,352,272	4,057,189	1,740,000	58,321	-	8,331,966	-	3,014,595	162,262	1,360,000	75,076,605	6.39%	1,979
2015	53,410,128	277,801	1,210,000	91,495	-	8,946,153	-	3,490,564	231,803	1,640,000	69,297,944	5.99%	1,830
2014	56,487,433	543,934	1,585,000	123,370	-	9,561,204	-	3,966,533	347,705	65,000	72,680,179	6.35%	1,992
2013	58,693,750	801,767	2,155,000	22,398	2,215,000	5,048,233	-	2,127,502	-	130,000	71,193,650	6.50%	1,982
2012	60,878,759	1,581,300	190,000	60,190	2,342,656	5,383,700	-	2,413,471	-	190,000	73,040,076	8.15%	2,117
2011	48,035,253	8,615,077	250,000	97,188	2,476,681	5,704,200	-	2,684,440	-	250,000	68,112,839	8.01%	2,031
2010	37,804,450	12,404,034	310,000	133,408	5,436,773	6,149,350	-	-	-	310,000	62,548,015	7.07%	1,923
2009	38,773,456	13,326,340	-	-	5,779,949	6,571,150	7,000	-	-	-	64,457,895	7.05%	2,049
2008	32,903,213	14,230,297	-	107,078	6,203,126	6,976,300	14,000	-	-	-	60,434,014	7.20%	1,885

NOTES: a. Statements.

b. Details regarding the City's outstanding debt can be found in the notes to the basic financial

statements.  
b. See Table 18 for personal income and population data for the City. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF SCHERTZ, TEXAS  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS

TABLE 14

Fiscal Year	General Bonded Debt Outstanding				Percentage of Actual Taxable Value of Property		Per Capita
	General Obligation Bonds	Certificates of Obligation	Available in Debt Service Funds	Total	Property	Capita	
2017	\$ 59,147,240	\$ 9,011,415	\$ (1,087,260)	\$ 67,071,395	1.84%	1,700	
2016	59,366,867	4,057,189	(517,199)	62,906,857	1.86%	1,658	
2015	56,900,692	277,801	(227,674)	56,950,819	1.88%	1,504	
2014	60,453,966	543,934	(117,250)	60,880,650	2.21%	1,669	
2013	60,821,252	801,767	(286,215)	61,336,804	2.36%	1,707	
2012	63,292,230	1,581,300	(444,369)	64,429,161	2.67%	1,868	
2011	50,719,693	8,615,077	(429,289)	58,905,481	2.49%	1,756	
2010	37,804,450	12,404,034	(556,884)	49,651,600	2.12%	1,527	
2009	38,773,456	13,326,340	(347,739)	51,752,057	2.32%	1,645	
2008	32,903,213	14,230,297	(263,740)	46,869,770	2.11%	1,462	

NOTE: Details regarding the City's outstanding debt can be found in the notes to the basic financial statements. See Table 8 for the City's property tax value data. City population data can be found in Table 18.

CITY OF SCHERTZ, TEXAS  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
CURRENT YEAR

TABLE 15

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable*	Estimated Share of Overlapping Debt
<i>Debt repaid with property taxes:</i>			
Alamo CCD	\$ 394,680,000	0.19%	\$ 749,892
Bexar County	1,743,140,000	0.20%	3,486,280
Bexar County Hospital District	643,960,000	0.19%	1,223,524
Comal County	126,550,000	4.45%	5,631,475
Comal ISD	568,250,107	2.60%	14,774,503
Guadalupe County	7,095,000	18.91%	1,341,665
Schertz-Cibolo-Universal ISD	381,086,092	50.56%	192,677,128
Subtotal, Overlapping Debt			219,884,466
City Governmental Activities Direct Debt			66,855,029
<b>TOTAL NET OVERLAPPING DEBT</b>			<b>\$ 286,739,495</b>

NOTES: The overlapping debt was received from the Municipal Advisory Council of Texas. Details regarding the City's outstanding debt can be found in the notes to the basic financial statements.

Overlapping debt is the proportionate share of the debts of local jurisdictions located wholly or in part within the limits of the City of Schertz. This schedule is intended to demonstrate the total debt that the City of Schertz property tax payers will be expected to repay. The amount of debt applicable to the City of Schertz is computed by (a) determining what portion of total assessed value of the overlapping jurisdiction lies within the limits of the City and (b) applying this percentage to the total governmental activities debt of the overlapping jurisdiction.

CITY OF SCHERTZ, TEXAS  
DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS

TABLE 16

Assessed Value, 2016 Tax Roll	
	\$ 3,647,504,903
Debt Limit - Texas statutes do not provide a legal debt limit for cities; however, through accepted practice a practical "economic" debt limit is considered to be 10% of the assessed value.	\$ 364,750,490
Amount of Applicable Debt:	
General Bonded Debt	\$ 66,880,176
Less Debt Service Net Position	(1,087,260)
DEBT MARGIN	\$ 298,957,574
Total Net Debt as a Percentage of Debt Margin	22.01%

CITY OF SCHERTZ, TEXAS  
PLEDGED REVENUE COVERAGE  
LAST TEN FISCAL YEARS

TABLE 17

Fiscal Year	Water Revenue Bonds				
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Principal	Interest
2017	\$ 25,390,713	\$ 18,697,162	\$ 6,693,551	\$ 1,554,541	\$ 368,390
2016	22,003,794	17,603,487	4,400,307	1,441,741	417,346
2015	20,700,369	15,916,597	4,783,772	1,448,407	428,912
2014	19,147,872	15,246,653	3,901,219	1,010,500	426,100
2013	17,696,327	14,553,274	3,143,053	728,800	359,680
2012	17,411,568	14,185,126	3,226,442	697,100	396,968
2011	16,843,780	13,229,037	3,614,743	577,824	409,801
2010	14,993,648	12,399,880	2,593,768	615,400	502,629
2009	14,533,390	9,973,940	4,559,450	685,400	534,634
2008	13,620,440	9,040,264	4,580,176	665,400	558,569

NOTE: Details regarding the City's outstanding debt can be found in the notes to the basic financial statements. Operating expenses do not include depreciation, interest, amortization or joint venture expenses.

	Fiscal Year		
	2014	2015	2016
Assessed Value	\$ 2,752,562,574	\$ 3,037,267,611	\$ 3,375,850,131
Debt Limit	\$ 275,256,257	\$ 303,726,761	\$ 337,585,013
Total Net Debt Applicable to Limit	56,803,499	53,424,303	61,181,169
Total Debt Margin	\$ 2,18,452,758	\$ 250,302,458	\$ 276,403,844
Assessed Value	2010	2011	2013
Debt Limit	\$ 2,363,893,708	\$ 2,411,270,623	\$ 2,600,365,551
Total Net Debt Applicable to Limit	\$ 236,389,371	\$ 241,127,062	\$ 260,036,555
Total Debt Margin	\$ 181,090,821	\$ 180,153,436	\$ 199,536,987
Assessed Value	2007	2008	2009
Debt Limit	\$ 2,221,073,744	\$ 2,230,825,045	\$ 2,342,355,490
Total Net Debt Applicable to Limit	\$ 222,107,374	\$ 223,082,505	\$ 234,235,549
Total Debt Margin	\$ 176,640,471	\$ 172,668,024	\$ 185,416,114

CITY OF SCHERTZ, TEXAS  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 LAST TEN FISCAL YEARS

TABLE 18

Fiscal Year	Population	Personal Income	Per Capita Personal Income	Median Age	Education			Unemployment Rate
					Level in Years of Schooling	School Enrollment	Rate	
2016 - 2017	39,453	\$ 1,266,046,770	\$ 32,090	37.2	15,497	15.9	3.8%	
2015 - 2016	37,938	1,175,319,240	30,980	36.9	15,460	15.8	3.4%	
2014 - 2015	37,865	1,157,835,970	30,578	36.1	15,009	15.6	3.2%	
2013 - 2014	36,477	1,144,465,875	31,375	36.9	14,515	15.4	5.1%	
2012 - 2013	35,929	1,095,331,494	30,486	37.1	14,058	15.4	5.5%	
2011 - 2012	34,499	895,739,206	25,964	36.8	13,016	15.4	5.6%	
2010 - 2011	33,544	850,069,800	25,342	37.8	12,533	15.4	5.7%	
2009 - 2010	32,523	885,015,876	27,212	34.4	12,330	15.4	5.1%	
2008 - 2009	31,465	913,919,790	27,923	36.5	11,700	13.9	5.0%	
2007 - 2008	32,057	839,701,058	26,194	35.1	10,991	14.0	4.0%	

Sources: Population, personal income, median age and education level information provided by City Economic Development Corporation. School enrollment provided by Schertz-Cibolo-Universal City Independent School District. Unemployment data provided by Texas Workforce Commission.

CITY OF SCHERTZ, TEXAS  
 TOP TEN PRINCIPAL EMPLOYERS  
 CURRENT YEAR AND NINE YEARS AGO

TABLE 19

Employer	2017		2008	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Schertz/Cibolo/UC ISD	1,837	12.92%	1,495	10.09%
Amazon.com	1,256	8.83%		
Sysco Central Texas	815	5.73%		
Baker Hughes, a GE Company	600	4.22%		
The Brandt Companies, LLC	437	3.07%	165	1.11%
FedEx Ground	475	3.34%		
Visionworks	400	2.81%		
Republic Beverage Company	382	2.69%	100	0.67%
HEB Grocery CO	350	2.46%	300	2.02%
City of Schertz	341	2.40%	303	2.04%
Wal-Mart Stores			420	2.83%
EyeCare Centers of America			320	2.16%
Valero Diamond Distribution			160	1.08%
Metro Ambulance LP			110	0.74%
Manco			100	0.67%
<b>TOTAL</b>	<b>6,893</b>	<b>48.47%</b>	<b>3,473</b>	<b>23.41%</b>

Source: City Economic Development Corporation



CITY OF SCHERTZ, TEXAS  
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
 LAST TEN FISCAL YEARS

TABLE 20

Function	Full-Time Equivalent Employees as of September 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>General Government</b>										
City Manager	6	7	6	6	7	7	6	6	5	5
Court Support	0	0	0	0	0	0	0	0	0	0
Municipal Court	4	5	5	5	6	6	6	6	6	6
Customer Relations	4	4	4	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Planning and Zoning	5	4	4	4	3	3	3	3	4	4
General Services	9	9.5	13.5	14.7	14.7	12.7	12.7	13	0	0
City Secretary	2	2	2	2	2	2	2	2	2	2
Public Affairs	3	3	3	3	4	4	4	4	4	4
Records Management	3	3	3	3	1	1	1	1	1	1
Schertz Magazine	0	0	0	0	2	2	2	2	2	2
Engineer	3	1	2	2	4	3	3	3	7	7
GIS	0	2	2	2	2	2	2	2	2	2
Information Technology	3	3	3	4	4	6	6	6	6	7
Human Resources	3	3	4	4	4	4	4	4	5	5
Finance	6	6	6	6	6	6	6	8	8	8
Purchasing	2	5	5	5	5	4	3	3	3	3
Fleet Service	3	3	3	4	4	4	4	4	6	6
Building Maintenance	0	0	0	0	0	2	2	3	0	0
Facility Services	0	0	0	0	0	0	0	0	15.6	15.6
Public Safety										
Police	68.6	64.6	64.6	64.6	69.7	74.7	74.7	75.2	77.6	80.6
Fire	32	32	32	32	32	32	33	33	36	39
Inspections	8	7	6	7	7	7	8	9	8	8
Marshal Services	0	5	5	8	8	8	8	8	8	5
Health										
Animal Control	6	6	6	6	6	6	7	7	8	8
Environmental Health	0	0	0	0	0	0	0	0	3	3
Parks and Culture										
Parks	8	8	8	9	9	9	9	9	9	10
Pools	0	0	0	0	0	0	0	0	0	0
Event Facilities	1	1	2	1	1	1	1	1	1	1
Library	10.5	11	13.5	13.5	14	14	14	14	14	14
Public Environment										
Streets	13	13	13	14	14	14	14	14	14	14
Public Works										
Public Works	6	6	5	4	4	6	6	6	4	4
Business Office	10	10	10	10	10	10	10	10	10	10
Water and Sewer	14	16	16	17	17	16	16	16	16	16
Drainage	6	7	7	7	7	8	8	8	6	6
EMS	30	34	34	34	35	35	36	37	39	41
Economic Development	3	4	4	3	4	4	4	4	4	4
<b>TOTAL</b>	<b>272.1</b>	<b>285.1</b>	<b>289.6</b>	<b>299.3</b>	<b>310.9</b>	<b>317.9</b>	<b>319.9</b>	<b>327.4</b>	<b>338.7</b>	<b>345.7</b>

Source: City Adopted Budgets

Note: Full-time equivalent is based on the schedule hours of positions to a 40 hour work week.



CITY OF SCHERTZ, TEXAS  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS

TABLE 21

Function	Fiscal Year				
	2009	2010	2011	2012	2013
General Government					
Building Permits Issued	5,181	4,806	4,950	2,643	3,054
Schertz Tales	120,000	144,000	168,000	168,000	168,000
Police					
CFS	36,319	37,269	26,205	19,434	19,894
Arrests	873	790	762	666	800
Traffic Violations	20,452	19,259	13,231	20,881	19,335
Accidents	1,491	1,606	1,575	1,665	1,960
Fire					
Number of Rescue/Other Responses	1,536	1,671	1,657	1,799	2,046
Number of Fire Responses	135	76	110	74	108
Number of Inspections	447	425	616	429	332
Number of Training Classes Conducted	264	107	142	168	132
Number of Pre-Plan Inspections	452	642	536	714	729
EMS					
Requests for Transport	7,061	7,281	7,443	7,545	8,391
Actual Transports	4,341	4,575	4,801	4,766	5,451
EMT Students	80	80	85	79	116
Marshal Service					
Warrants Issued	5,974	5,444	4,141	2,888	3,344
Warrants Cleared	3,836	4,023	3,985	4,118	4,687
Food Establishment Permits	134	129	118	123	127
Food Establishment Inspection	209	202	244	180	281
Foster/Adoption Inspections	34	27	18	14	24
Parks					
Facility Reservations	671	719	237	234	258
Community and Civic Centers					
Civic Center	484	594	354	325	444
Community Center Rentals	-	635	666	816	735
North Community Center Rentals	-	-	241	307	288
Animal Services					
Number of Animals Handled	1,804	2,021	1,802	1,463	1,326
Number of Adoptions	255	249	257	291	362
Number of Return to Owners	252	279	313	149	231
Number of Transfers	415	451	300	312	301
Library					
Annual Circulation	263,131	392,528	414,074	410,312	404,691
Library Visits	188,118	257,235	254,934	256,349	254,633
Library Program Attendance	10,499	10,610	13,767	16,035	12,581
Registered Users	20,360	24,628	28,589	30,475	31,658
Water					
New Connections	446	509	439	271	168
Water Main Breaks	72	25	76	52	38
Total Consumption (thousands of gallons)	15,115,679	12,313,766	16,763,239	16,131,415	15,500,413
Daily Average Consumption (thousands of gallons)	38,550	33,736	45,927	44,196	42,466
Peak Daily Consumption (thousands of gallons)	7,570	7,040	11,000	9,290	9,483
Total Customers	10,198	10,134	12,234	12,557	12,757
Average Use Per Connection	6,913	5,054	5,725	5,517	5,905
Sewer					
Total Customers	9,974	9,499	10,907	10,988	11,456
Facilities/Maintenance					
Number of Buildings Maintained	19	19	19	19	19
Square Footage	166,591	166,591	166,591	166,591	166,591

Source: Various City Departments. Prior year information for some functions is not available.

CITY OF SCHERTZ, TEXAS  
 CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM  
 LAST TEN FISCAL YEARS

TABLE 22

Function	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<u>Police</u>										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	33	38	40	42	42	42	42	48	50	64
<u>Fire</u>										
Stations	2	2	2	2	2	2	2	2	2	2
Training Facility	1	-	-	-	-	-	-	-	-	-
Fire Vehicles	14	13	13	13	13	13	15	16	16	16
<u>EMS</u>										
Ambulances	6	6	6	6	6	7	7	9	9	8
<u>Marshal Service</u>										
Vehicles	-	5	7	8	8	7	7	7	7	7
<u>Streets</u>										
Streets, paved (miles)	122	124	125	132	134	137	141	149	153	159
Streets, unpaved (miles)	7	7	7	5	5	5	5	5	5	5
<u>Parks and Recreation</u>										
Parks - Developed	7	11	12	17	17	13	13	14	15	20
Parks - Undeveloped	4	4	4	4	4	8	8	9	10	4
Playground	20	20	19	15	15	16	16	18	19	19
Swimming Pools	2	2	2	2	2	2	2	2	2	4
Baby Pools	2	2	2	2	2	2	2	2	2	2
Baseball/Softball Diamonds	12	12	12	9	9	12	12	15	15	15
Soccer Fields	-	12	12	12	12	12	12	12	12	12
Community Centers	2	2	4	4	4	4	4	4	4	4
<u>Animal Control</u>										
Control Vehicle	3	3	3	3	3	3	3	3	4	3
<u>Library</u>										
Facility	1	1	1	1	1	1	1	1	1	1
Volumes in Collection	60,650	64,400	71,929	73,904	81,468	86,221	100,478	113,085	97,412	107,382
<u>Water</u>										
Number of Reservoirs	-	-	-	-	-	-	-	-	-	-
Number of Pump Stations	-	5	5	5	5	5	5	5	5	5
Water Mains (Miles)	182	188	190	192	192	197	199	210	211	221
<u>Sewer</u>										
Sanitary Sewers (Miles)	71	78	78	84	85	87	90	96	98	110
Storm Sewers (Miles)	8	9	9	10	10	11	11	12	12	12
<u>Facilities Maintenance</u>										
Vehicles	4	5	5	5	4	5	5	6	6	6
Generators	3	3	3	3	3	3	3	4	4	4

Source: Various City Departments



COMPLIANCE SECTION

Nancy L. Vaughan, CPA  
Deborah F. Fraser, CPA  
Phil S. Vaughan, CPA



Armstrong, Vaughan & Associates, P.C.  
Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

#### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council and management  
City of Schertz

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Schertz as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Schertz's basic financial statements, and have issued our report thereon dated March 6, 2018.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Schertz's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Schertz's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Schertz's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Schertz's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of City of Schertz in a separate letter dated March 6, 2018.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, likely belonging to a representative of Armstrong, Vaughan &amp; Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

March 6, 2018



**APPENDIX D**

**General Purpose Financial Statements for the City of Seguin, Texas  
for the Fiscal Year Ended September 30, 2017**

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**It's real.**



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**CITY OF SEGUIN, TEXAS  
COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FISCAL YEAR ENDED  
SEPTEMBER 30, 2017**

Prepared by: Finance Department  
Susan Caddell  
Director of Finance

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CITY OF SEGUIN, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

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**It's real.**



**It's real.**

March 1, 2018

The Honorable Mayor and City Council  
City of Seguin, Texas

We are pleased to present the Comprehensive Annual Financial Report of the City of Seguin, Texas (the City), for the fiscal year ended September 30, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the presented data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City of Seguin's financial statements have been audited by Armstrong, Vaughan & Associates, P.C, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Seguin 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 statement presentation. The independent auditor has issued an unqualified ("clean") opinion on the City's financial statements for the year ended September 30, 2017. The independent auditor's report is located at the front of the financial section of this report.

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

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart and a list of principal officials. The financial section includes the management's discussion and analysis letter, the government-wide financial statements, the fund financial statements, notes to the financial statements, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds of the City. The City provides a full range of services including: police and fire protection, health services, maintenance of streets, planning and zoning, parks and recreation, convention and visitors' bureau and general administrative services. The City also provides electric, water, and wastewater services; therefore, these activities are included in the reporting entity.

**City of Seguin profile.** The City of Seguin is located in South Central Texas and is the county seat and principal commercial center of Guadalupe County. The City is located on Interstate Highway 10, about 35 miles east of San Antonio, 160 miles west of Houston, and 50 miles south of Austin, the State capital.

Incorporated in 1853, the City operates under a Home Rule Charter, which was adopted on December 7, 1971. The City has a council-manager type of government composed of the manager, mayor and eight councilpersons elected for four-year terms. The City Manager is the chief administrator and executive officer for the City and has full responsibility for carrying out Council policies and administering City operations, including hiring department Directors and all other City employees. City service departments provide a full range of services including police and fire protection, EMS services, building inspections, animal control services, parks and recreation services, golf, library services, public works services and general administrative services. In addition, the City of Seguin also provides electric, water and wastewater services.

**Local economy.** The Seguin-Guadalupe County economy is an important contribution to the San Antonio metropolitan area. Manufacturing, agriculture and agribusiness, minerals, education, and recreation are major contributors. The City of Seguin has been economically stable for many years because of the industries located here. Numerous businesses and Fortune 500 companies major operations located within the City of Seguin including, Continental Automotive Group, Commercial Metals Corporation (CMC), Tyson Foods, Inc., Caterpillar, Inc., Mingrip, Wal-Mart, Alamo Group, HEB, Niagara Bottling, Georgia Pacific, and Hexcel. Several other businesses have recently established a presence in Seguin or will be doing so in the near future. Tractor Supply Company opened a regional distribution center in late 2015, Niagara Bottling opened its Seguin Bottling Center in the Spring of 2016, United Alky expanded distribution and warehousing operations to Seguin in the fall of 2016, and Amercan Colors will begin manufacturing operations in Seguin starting in the spring of 2018.

In addition, to the Seguin Independent School District, Seguin is the home of Texas Lutheran University (TLU). It is a fully accredited four-year co-educational senior liberal arts institution of higher education. TLU's 1,400 students come from 23 states and 8 foreign countries. The 14:1 student-teacher ratio allows for small classes. TLU has repeatedly been listed as one of the top ten small colleges in the southern United States by the *U.S. News and World Report* survey of college presidents.

In discussions with major employers in Seguin, it is apparent that a continued focus on developing an available, skilled workforce is essential to remaining competitive. In an effort to address regional workforce development needs in Seguin, the Central Texas Technology Center (CTTC) has partnered with the Alamo Academies to offer the Advanced Technology and Manufacturing Academy that trains junior and senior high school students in a manufacturing trade. Seguin and New Braunfels high school students earn up to a total of thirty (30) college credit hours, graduate with a diploma and enroll in a two or four year college to earn a degree. Given the fact that the availability of a trained workforce is one of the most important site selection variables for companies, this workforce training system has the potential of providing a steady flow of new trained workers to put Seguin and New Braunfels at a distinct advantage. During this reporting cycle, an overwhelming interest in the dual placement program drove the need for additional funding for Accuplacer exams to be administered. In addition the CTTC recently underwent an expansion that doubled the size of its campus to accommodate current and future growth.

Guadalupe Regional Medical Center (GRMC), located in Seguin, is an award-winning, technologically advanced regional healthcare provider that transforms lives by providing compassionate high-quality healthcare. With an active medical staff of 152 local physicians and 742 employees, GRMC provides comprehensive healthcare services to the residents of eight counties throughout Central Texas. In 2014, GRMC surgeons were trained in and began performing da Vinci robotic surgery.

Each year the hospital admits approximately 5,000 patients, treats 32,000 Emergency Department visits, delivers 700 babies, and performs 3,200 surgeries. GRMC contributes nearly \$40 million per year to the local economy in salaries and benefits and is one of the largest employers in Guadalupe County. Jointly owned by the City of Seguin and Guadalupe County, GRMC is a not-for-profit community hospital committed to its values of compassion, teamwork, excellence, enthusiasm, and dedication.

Data provided by the Bureau of Labor Statistics indicates that the City of Seguin added and estimated 418 jobs from December 2016 to December 2017. In addition, the unemployment rate decreased slightly to 3.0 percent in December, down from 3.3 percent in November. These low rates continue to keep the City in what economists consider to be at full employment.

The City of Seguin unemployment rate registered an identical overall jobless rate of 3.0 percent for the 8-county San Antonio-New Braunfels Metropolitan Statistical Area (MSA), which includes Atascosa, Bandera, Bexar, Comal, Guadalupe, Kendall, Medina and Wilson counties. The City of New Braunfels registered a 3.0 percent unemployment rate in December, while the City of San Antonio registered 3.0 percent and the City of Schertz registered a 2.9 percent rate—all at full employment.

Comparing the San Antonio-New Braunfels MSA to the state and nation, the Texas unadjusted (actual) unemployment rate remained unchanged for the months of November and December at 3.7 percent. The nation's unadjusted (actual) unemployment rate registered at 3.9 percent for December, remaining the same from November.

In April 2016, Caterpillar announced it would be closing an electric generator packaging facility in Newberry, South Carolina, and a generator assembly plant in Ridgeway, South Carolina. As a part of these consolidation efforts, Caterpillar shifted the operations of these facilities to three other plants, one of which was the Seguin, Texas facility. The transfer of operations to Caterpillar's Seguin Plant speaks volumes about our region's workforce and the business friendly Texas economy. In addition, in 2016 Caterpillar also relocated its Americas Sales and Marketing team to the Seguin, Texas facility. The relocation involved employees throughout the United States and Europe.

In the spring of 2016, Niagara Bottling opened its new 557,000 square foot bottling facility located on 30.77 acres of land off Interstate 10 at the intersection of Rio Nogales Drive and Eighth Street. On June 30, 2015 the City of Seguin announced that Niagara Bottling would be locating their new bottling facility in Seguin, Texas. The project will create over \$85 million in new capital investment and more than 75 new jobs. Niagara recently added a third production line to their facility. The new line will create about 20 new jobs.

**Long-term financial planning.** The City issued \$8,415,000 in utility revenue bonds in March 2017, which funded major water and wastewater improvements. In addition, the City issued \$8,800,000 in certificates of obligation bonds in December 2016 which, provided funding for needed street and drainage improvements.

**FINANCIAL INFORMATION**

**Internal control.** Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles for local governments as prescribed by the Government Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The City utilizes a computerized financial accounting system, which includes a system of internal accounting controls. Such controls have been designed and are continually being reevaluated to provide reasonable, but not absolute, assurances.

**Budgeting Controls.** The City also maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of all funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. However, budgetary accounting is maintained on a line-item basis. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year end, however, encumbrances generally are reappropriated as part of the following year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

**Financial rating.** The City's bond rating for Fitch Ratings and Standard & Poor's is as follows:

	<u>Fitch Ratings</u>	<u>Standard &amp; Poor's</u>
General Obligation Bonds	AA+/stable outlook	AA+/stable outlook
Utility Revenue Bonds	A+/stable outlook	A+/stable outlook

**Retirement Plan.** The City provides pension benefits for all of its full-time employees through the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system.

**Deferred Compensation Plan.** The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**Health Benefits Trust Fund.** During fiscal year 2009, the City established a Health Benefits Trust Fund and Retiree Insurance Trust Fund. These funds were established for the receipt of health insurance premiums from the benefits paid by the City, premiums paid by retirees and dependent premiums paid by employees and retirees. The disbursements of these premiums are also paid out of these funds.

**OTHER INFORMATION**

**Independent Audit.** The City Charter requires an annual audit of the books, accounts, financial records, and transactions of all administrative departments of the City by independent certified public accountants selected by the City Council. This requirement has been complied with and the independent auditors' report by Armstrong, Vaughan & Associates, P.C., Certified Public Accountants, has been included in this report.

**Acknowledgments.** The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. We would also like to thank the members of the City Council and the citizens of the City of Seguin for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Douglas G. Fasel  
City Manager



Susan Caddell  
Director of Finance



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to  
**City of Seguin  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2016**



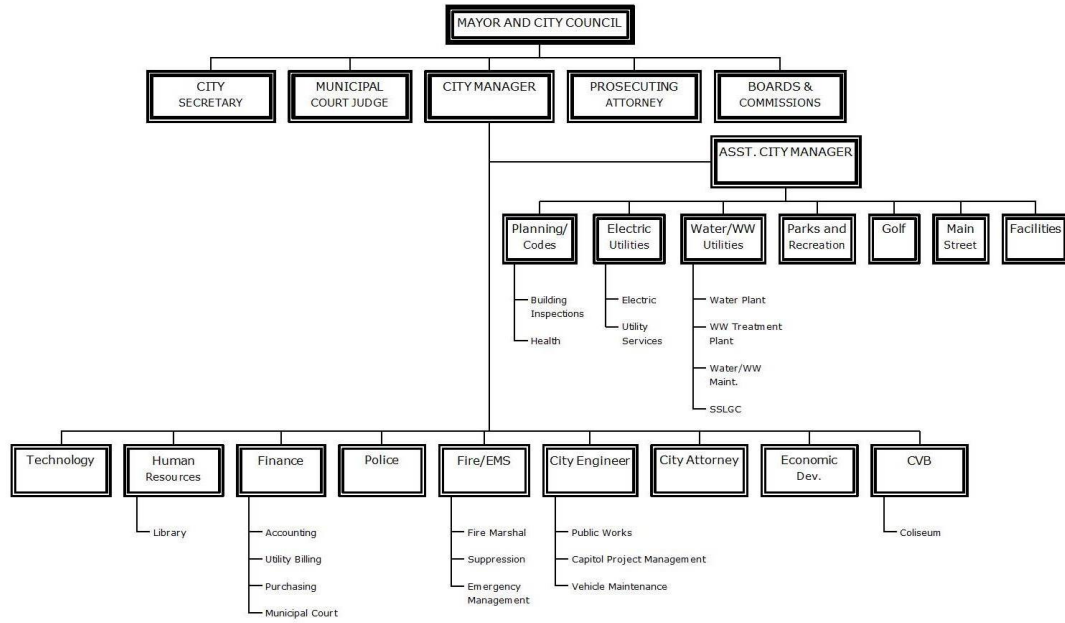
Executive Director/CEO

CITY OF SEGUIN, TEXAS

PRINCIPAL OFFICERS

DON KEIL.....	Mayor
ERNESTO M. LEAL.....	Mayor Pro-Tem
JEANETTE CRABB.....	Councilwoman
DONNA DODGEN.....	Councilwoman
MARK HERBOLD.....	Councilman
FONDA MATHIS.....	Councilwoman
CARLOS MEDRANO.....	Councilman
CHRIS RANGEL.....	Councilman
DOUG FASELER City Manager	
RICK CORTES.....	Assistant City Manager
NAOMI MANSKI.....	City Secretary
SUSAN CADELLE.....	Director of Finance
ANDREW QUITTNER.....	City Attorney

CITY OF SEGUIN



Nancy L. Vaughan, CPA  
Deborah F. Fraser, CPA  
Phil S. Vaughan, CPA



Armstrong & Vaughan  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. The financial statements of the Seguin Economic Development Corporation (component unit) were not audited in accordance with *Government Auditing Standards*.

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.

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#### Opinions

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

#### Other Matters

##### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, schedules of changes and city contributions – defined benefit plan, and other postemployment benefit, as listed in the table of contents, 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 management's discussion and analysis, budgetary comparison information and schedules of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

##### Other Information

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

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

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



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018 on our consideration of the City of Seguin, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Seguin, Texas' internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

February 15, 2018



**It's real.**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Seguin, we offer readers of the City of Seguin's financial statements this narrative overview and analysis of the financial activities for the City of Seguin for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and the City's financial statements immediately following this analysis.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Seguin exceeded its liabilities at the close of the fiscal year ending September 30, 2017, by \$108,497,153 (net position). Of this amount, \$23,124,152 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$6,893,616 or 6.78% compared to the prior fiscal year.
- As of September 30, 2017 the City of Seguin's governmental funds reported combined ending fund balances of \$36,338,201, an increase of \$1,540,427.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$11,505,167, or 51.3% of total General Fund expense.
- The City's total debt increased by \$14,580,904 during the current fiscal year. The City issued Certificates of Obligation Bonds for \$8,800,000 and Utility Revenue Bonds for \$8,415,000.
- During the year, the City's expenses were \$406,480 less than the \$32,610,010 generated in taxes and other revenues for governmental activities before transfers.
- The total cost of the City's governmental activity programs increased by \$2,138,230 from last year, and no new programs were added this year. Salaries and benefits increased from fiscal year 2016. In addition, depreciation increased due to several projects being completed in fiscal years 2017 and 2016.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Seguin's basic financial statements. The City of Seguin's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The comprehensive annual financial report (CAFR) also contains other supplementary information in addition to the basic statements themselves.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave).

In the *statement of net position* and the *statement of activities*, the City's operations are divided into two kinds of activities:

1. **Governmental Activities** – Most of the City's basic services are reported here, such as public safety, public works and general administration. Property taxes, franchise fees and charges for services finance most of these activities.
2. **Business-Type Activities** – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's Utility Fund, which include, electric, water and wastewater services, are reported here.

In addition, the *government-wide financial statements* include not only the City of Seguin itself, but also the Seguin Economic Development Corporation, a legally separate component unit for which the City is financially accountable. Financial information for this component unit is reported separately from the primary government and business-type activities.

The *government-wide financial statements* can be found on pages 16 - 19 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Seguin, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Governmental fund statements are reported using current financial resources measurement focus and the modified accrual basis of accounting.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the *statement of net position* and the *statement of activities*) and governmental funds are detailed in a reconciliation following the fund financial statements.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, 2016 Certificates of Obligation Fund, 2016-a Certificates of Obligation Fund and Debt Service Fund, all of which are considered to

be major funds. Data from the other governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the CAFR.

The basic governmental fund financial statements can be found on pages 20 - 25.

**Proprietary funds.** The City charges customers for certain services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *statement of net position* and the *statement of activities*.

The City maintains two different types of proprietary funds. The Utility Fund is a business-type activity and consists of revenues from charges for electric, water and wastewater sales. The Internal Service Funds account for revenues and expenditures for the employee health insurance, retiree health insurance and workers' compensation insurance. The fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary funds financial statements can be found on pages 26 - 30 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Seguin's own programs. The method of accounting utilized for these funds is similar in nature to that of the proprietary funds.

The basic fiduciary fund financial statements can be found on pages 31 - 32 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 - 68 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's general fund budgetary schedule. The City of Seguin adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 69 - 74 of this report.

In addition, this report also contains certain required supplementary information concerning the City of Seguin's progress in funding its obligation to provide pension benefits to City staff and members of the City's firemen's pension fund, as well as funding progress for other postemployment benefits (health insurance) provided to retirees.

The combining statements referred to earlier in connection with nonmajor governmental and enterprise funds and individual internal service funds are presented immediately following the required supplementary information described in the preceding paragraph. Combining and individual fund statements can be found on pages 80 - 120 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2017, the City of Seguin's assets and deferred outflows of resources exceeded liabilities by \$108,497,153. Table A-1 is a condensed version of the City's statement of net position for the years ended September 30, 2017 and 2016, respectively.

The largest portion of the City's total net position (73.4%) is its net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Seguin uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The next largest portion of the City's total net position (21.3%) is its unrestricted net position.

Table A-1  
City of Seguin's Net Position

	Governmental Activities		Business-Type Activities		Total
	2017	2016	2017	2016	
<b>Assets</b>					
Current assets	\$ 27,017,724	\$ 27,960,258	\$ 37,207,003	\$ 34,338,715	\$ 64,224,727
Capital assets	91,443,641	83,096,731	90,354,183	77,555,421	181,797,824
Other non-current assets	15,653,893	13,057,073	14,459,337	17,054,811	30,113,230
Total assets	134,115,258	124,114,062	142,020,523	128,948,947	276,135,781
<b>Deferred Outflows of Resources</b>	5,132,092	5,688,983	1,741,400	1,933,690	6,873,492
<b>Liabilities</b>					
Current liabilities	3,977,776	3,821,156	5,222,032	6,396,858	9,159,888
Noncurrent liabilities	105,153,206	96,313,724	60,199,106	52,550,407	165,352,312
Total liabilities	109,090,982	100,134,880	65,421,138	58,947,265	174,312,120
<b>Net Position</b>					
Invested in Capital Assets	30,491,009	28,065,213	49,099,409	44,783,121	79,590,418
Restricted	2,806,714	2,912,376	2,975,869	2,713,333	5,782,583
Unrestricted	(3,141,355)	(1,909,424)	26,265,507	24,490,016	23,124,152
Total Net Position	\$ 30,156,368	\$ 29,668,165	\$ 78,340,785	\$ 71,935,370	\$ 108,497,153

An additional portion of the City of Seguin's net position (5.3%) is subject to external restrictions, including bond covenants, on how they must be used. The remaining balance of unrestricted net position of \$23,124,152 may be used to meet the government's ongoing obligations to citizens and creditors.

**Changes in Net position.** The City's total government-wide revenues increased by \$9,177,920 or 12.1%. This was largely due to increase in electric, water and sewer revenue along with an increase in property tax revenues and an increase in the developer contributions. The City's total government-wide expenses increased by \$5,633,784 or 7.8%. There was a large increase in wholesale power costs, along with an increase in salaries and benefits and depreciation.

**Table A-2**  
Changes in City of Seguin's Net Position

	Governmental Activities		Business-Type Activities		Total
	2017	2016	2017	2016	
<b>Program Revenues:</b>					
Charges for Services	\$ 10,619,004	\$ 9,797,695	\$ 49,979,572	\$ 46,502,423	\$ 56,300,118
Operating Grants and Contributions	618,406	546,156	-	-	618,406
Capital Grants and Contributions	2,868,007	656,203	1,845,532	975,222	4,713,539
General Revenues	9,362,955	7,922,023	-	-	9,362,955
Property Taxes	1,096,104	1,252,005	-	-	1,096,104
Franchise Taxes	6,271,333	6,232,146	-	-	6,271,333
Sales Tax	842,217	830,356	-	-	842,217
Occupancy Tax	531,294	546,645	-	-	531,294
Industrial District Agreement	400,790	183,931	389,947	191,923	790,737
Investment Earnings	-	-	3,601	14,112	3,601
Gain (Loss) on Sale of Assets	-	-	3,601	14,112	14,112
<b>Total Revenues:</b>	<b>32,610,110</b>	<b>27,967,161</b>	<b>52,218,652</b>	<b>47,683,680</b>	<b>84,838,762</b>

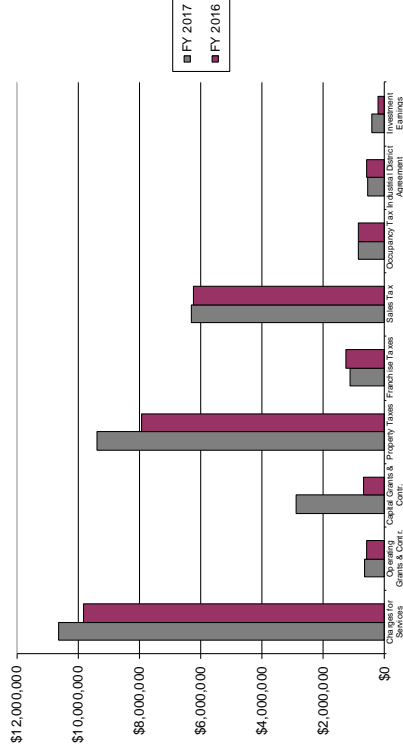
**Expenses:**

General Government	4,116,593	3,147,664	-	-	4,116,593	3,147,664
Public Safety	15,578,523	14,279,914	-	-	15,578,523	14,279,914
Public Service	9,644,071	10,077,096	-	-	9,644,071	10,077,096
Interest on Long-Term Debt	2,864,443	2,560,726	-	-	2,864,443	2,560,726
Utility	-	-	45,731,516	42,235,962	45,731,516	42,235,962
<b>Total Expenses</b>	<b>32,303,630</b>	<b>30,065,400</b>	<b>45,731,516</b>	<b>42,235,962</b>	<b>77,935,146</b>	<b>72,301,362</b>
Excess (Deficiency) Before Transfers In (Out)	406,480	(2,098,240)	6,487,136	5,447,718	6,893,616	3,349,478
Increase (Decrease) in Net Position	\$ 81,723	\$ (80,406)	\$ (81,723)	\$ 80,406	\$ -	\$ 3,349,478

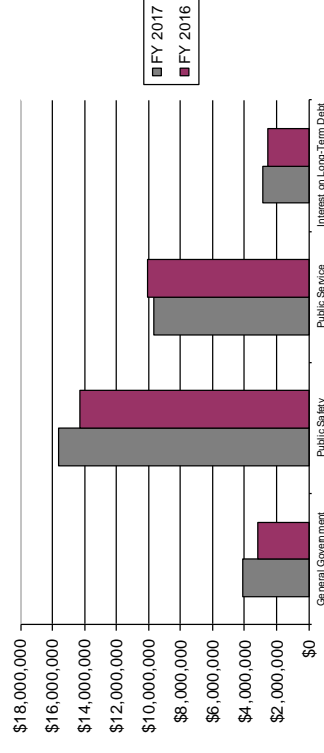
**Governmental activities.** The City's total governmental revenues increased by \$4,642,950 or 16.6% above last year. The City's total governmental expenses increased by \$2,138,230 or 7.1% above last year.

- Capital Grants and Contributions increased by 2,211,804. Of this amount, \$2,093,513 was from developer contributions.
- Property Taxes increased by \$1,440,932 or 18.19%. Property values increased along with an increase in debt service payments. This was the first full year the debt service payments were made for the 2016 General Obligation Bonds.
- Interest and Investment Earnings increased by \$216,859. An increase in interest rates along with investments in higher yield investments occurred in BY17.
- Building Permits increased by \$213,618 or 38.9%. Housing developments have been rapidly occurring in the City.
- The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$15,578,523. These expenses increased by \$880,456. These expenses are offset by revenues collected from a variety of sources, with the largest being from fines and penalties in the amount of \$1,691,314. Additional funding also included EMS revenue in the amount of \$1,031,905 and Fire and EMS interlocal agreements with Guadalupe County in the amount of \$588,874. The major components of public safety are police and fire. Police accounted for \$7.1 million in public safety expense while Fire accounted for \$5.6 million in public safety expense.

**Revenues - Governmental Activities**



**Expenses - Governmental Activities**

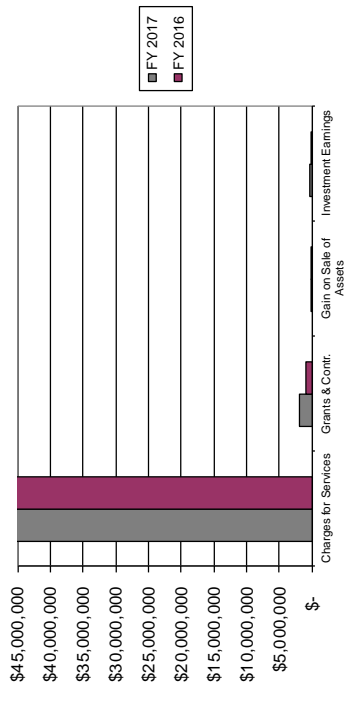


**Business-type activities.** The City's total business-type revenues increased by \$4,534,972 or 9.5%. The City's total business-type expenses increased by \$3,495,554 or 8.3%.

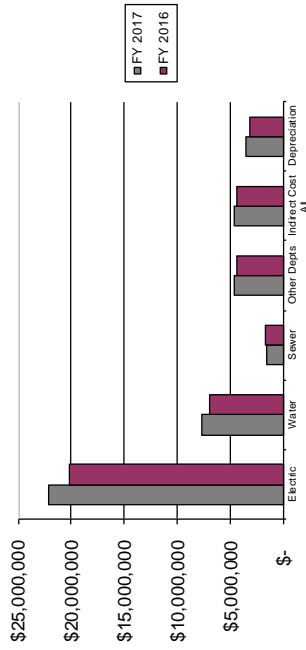
- Electric revenues make up \$30.2 million of the charges for services. This year electric revenues increased by \$2,116,864. The increase was due to an increase in consumption. Wholesale power costs increased by \$1,985,834 or 12.19%.
- Water revenues make up \$10.4 million of the charges for services. This year water revenues increased by \$574,353 or 5.9%. This was a result of an increase in consumption along with an increase in rates. The City purchases water from the Schertz-Seguin Local Government Corporation (SSLGC).

- Sewer revenues make up \$7.3 million of the charges for services. This year sewer revenues increased by \$537,735 or 8%. This was due to an increase in water consumption along with an increase in rates.

### Business-Type Activities-Revenues



### Business-Type Activities-Expenses



### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$36,338,201. This is an increase of \$1,540,427. The City continues to spend down bond proceeds received in previous fiscal years. In addition, the City suffered some damage in August 2017 as a result of Hurricane Harvey. Funds from the Stabilization Agreement Fund were used to provide the funding for recovery efforts. Once the City receives insurance proceeds and FEMA assistance proceeds, this fund will be replenished. Of this total amount of fund balance, \$11,505,167 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balances is as follows: 1) nonspendable fund balance in the amount of \$164,164 which are prepaids and inventory, 2) restricted fund balance in the amount of \$18,151,691, which are restricted to tourism and economic development, public safety, public service, capital projects or debt service, 3) committed fund balance in the amount of \$1,750,289, which is committed to stabilization agreement and aquatic fees, and 4) assigned fund balance in the amount of \$4,766,892, which is assigned to capital projects.

The General Fund is the main operating fund of the City of Seguin. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$11,505,167, while total fund balance reached \$13,173,454. Of this amount \$2,447,738 is attributable to the balance of a tax exemption settlement agreement. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. With the \$2,447,738 taken out of the equation, unassigned fund balance represents 40.4% of general fund expenditures, while total fund balance represents 47.8 of that same amount.

The General Fund Capital Projects Fund has a total fund balance of \$4,483,029, a decrease of \$250,163. This decrease can be attributable to the fact that funds are being used to complete projects.

At the end of FY17, six bond funds had a total fund balance of \$15,113,641. This was an increase of \$3,497,460 due to receiving bond proceeds of \$8,800,000 while continuing to spend down bond proceeds from previous years.

Other factors concerning the finances of governmental fund have already been addressed in the discussion of the City's governmental activities in the government-wide financial statements.

**Proprietary funds.** The City of Seguin's proprietary funds are utilized to account for operations of the City that are commercial in nature and accounted for in a manner more similar to private enterprise. The statements for proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Fund at the end of the year amounted to \$26,265,507. The restricted net position for debt service is \$520,794, while restricted net position for impact fees is \$2,455,075. Net position invested in capital assets amounted to \$49,099,409.

### GENERAL FUND BUDGETARY HIGHLIGHTS

For FY 2016-17, actual revenues on a budgetary basis were \$23,992,220 compared to the final budget of \$22,292,674, which is \$1,106,546 above budget. Building permits exceeded budget by \$263,303 due to increased construction activity. Property tax exceeded budget by \$292,138 due to an increase in values.

For FY 2016-17, actual expenditures on a budgetary basis were \$22,435,704 compared to the final budget of \$23,809,775, which was \$1,374,071 below final budget amounts. Some departments had employee turnover resulting in their personnel services being under budget and savings on other operating expenditures. Indirect cost allocation also exceeded budget by \$241,289.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** At the end of 2017, the City had invested \$181,797,824, net of depreciation, in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$17,979,138 or 11%. The increase was due in part to large bond projects being completed or underway begun during fiscal year 2017. More detailed information about the City's capital assets can be found in Note G, page 47 – 48.

**Table A-3**  
City of Seguin's Capital Assets

	Governmental Activities		Business-Type Activities		Total	Total Percentage Change 2016-2017
	2017	2016	2017	2016		
Land	\$ 4,584,815	\$ 4,467,991	\$ 727,026	\$ 727,026	\$ 5,311,841	2.2%
Buildings and Improvements	37,836,176	33,889,397	35,938,838	24,672,813	73,775,034	26.0%
Improvements Other than Buildings	64,790,507	56,208,316	89,868,569	69,105,147	125,313,463	23.4%
Transportation and Equipment	17,875,883	15,063,342	8,060,934	7,755,774	25,936,617	13.7%
Construction in Progress	16,352,771	19,981,296	18,028,664	34,102,978	34,381,435	-36.4%
<b>Totals at Historical Cost</b>	<b>141,440,132</b>	<b>129,610,342</b>	<b>152,624,051</b>	<b>136,643,738</b>	<b>294,064,203</b>	<b>10.6%</b>
Total Accumulated Depreciation	(49,996,511)	(46,513,609)	(62,269,868)	(55,641,785)	(112,266,379)	9.9%
<b>Net Capital Assets</b>	<b>\$ 91,443,641</b>	<b>\$ 83,096,733</b>	<b>\$ 90,354,183</b>	<b>\$ 80,721,953</b>	<b>\$ 181,797,824</b>	<b>11.0%</b>

**Long-term debt.** At year-end, the City had \$125,933,417 in bonds, loans and capital leases outstanding as shown in Table A-4. This was an increase of \$14,580,904 or 13.1% from 2016. This fiscal year, the City Certificates of Obligation in the amount of \$8,800,000 and issued Utility Revenue Bonds in the amount of \$8,415,000. More detailed information about the City's debt is presented in Notes H and I, pages 49 – 53.

The City's tax-supported debt rating by Fitch is AA with a stable outlook while Standard and Poor rating is AA- with a positive outlook (updated to AA stable as of January 2018). The City's utility system revenue bonds' rating by Fitch is A+ with a positive outlook while Standard and Poor rating is A+ with a stable outlook. The current ratio of net tax-supported debt to assessed value of all taxable property is 4.2%. The pledged revenue coverage for the utility system revenue bonds is 2.98.

**Table A-4**  
City of Seguin's Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	Total Percentage Change 2016-2017
	2017	2016	2017	2016		
Bonds Payable	\$ 39,590,288	\$ 41,464,030	\$ 49,699,711	\$ 42,725,970	\$ 89,289,999	6.0%
Certificates of Obligation	35,090,000	26,970,000	-	-	35,090,000	30.1%
Capital Leases	1,517,298	126,393	36,120	36,120	1,553,418	835.9%
<b>Total Bonds &amp; Notes Payable</b>	<b>\$ 76,197,586</b>	<b>\$ 68,560,423</b>	<b>\$ 49,735,831</b>	<b>\$ 42,792,090</b>	<b>\$ 125,933,417</b>	<b>13.1%</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

During the budget process for fiscal year 2017-18, City staff and City Council considered many factors when setting the budget. Staff reviewed all of the fees charged to citizens and customers when using City services. Along with the fees, staff also considered the tax rate. They also reviewed expenditures and how the increases may be held to a minimum. The City set a goal to maintain financial stability, a lean organization, a competitively paid staff and investment in capital outlay. This helped to maintain the City's services with the least affect possible on our citizens through taxes, fees, and utility rates. The projected revenues and expenditures for the General Fund are budgeted to increase by \$1,018,358 or 3.7% above the FY17 budget.

- Property tax revenue is budgeted to increase by \$1,113,840. This is based upon an increase in values along with additional debt service requirements.
- The property tax rate of \$.5412/\$100 remained the same as the prior year. It is higher than the effective rate by \$.0262.
- Emergency Medical Services is budgeted to increase by \$50,000.
- Salaries and benefits are budgeted to increase by \$823,664. This includes a 2% cost of living effective January 1.
- Indigent Health Care is budgeted to increase by \$71,676, which represents a 4.6% increase.

The projected revenues and expenditures for the Utility Fund are budgeted to increase by \$133,537 or .3% above the FY17 budget.

- Water revenue is budgeted to increase by \$820,700 due to an anticipated increase in consumption along with an increase in rates.
- Sewer revenue is budgeted to increase by \$542,564 due to an anticipated increase in consumption along with an increase in rates.
- Salaries and benefits are budgeted to increase by \$485,770. This includes a 2% cost of living effective January 1.
- Indirect cost allocation is budgeted to increase by \$250,000 based upon prior years.
- Water Purchased is budgeted to increase by \$150,000 due to an increase in the rates paid to SSLGC.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of Seguin, 205 North River Street, Seguin, Texas 78155.



**It's real.**

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – wide financial statements
- Fund financial statements:
  - Governmental funds
  - Proprietary funds
  - Fiduciary funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

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

CITY OF SEGUIN, TEXAS  
STATEMENT OF NET POSITION (CONTINUED)  
SEPTEMBER 30, 2017

	Primary Government		Component Unit
	Governmental Activities	Business-Type Activities	Seguin Economic Development Corporation
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 852,860	\$ 1,259,918	\$ 5,765
Investments	22,271,389	26,507,658	315,665
Receivables (net of allowances for uncollectibles)			
Taxes	2,129,221	-	-
Accounts	968,281	5,733,206	3,061
Grants	445,449	-	-
Miscellaneous	182,937	1,929,770	-
Due From Component Unit/Primary Government	-	19,035	190,351
Inventories	22,167	1,714,946	1,737,113
Prepays	145,420	42,470	187,890
Restricted Assets:			
Cash and Cash Equivalents	74,794	58,021	132,815
Investments	15,579,099	13,939,344	29,518,443
Notes Receivable	-	-	244,999
Net Present Value of Lease Financing	-	461,972	-
Capital Assets:			
Land	4,584,815	727,026	2,190,912
Buildings & Improvements	37,836,176	35,938,858	89,547
Improvements Other than Buildings/Infrastructure	64,790,507	89,868,569	-
Transportation & Equipment	17,875,883	8,060,934	-
Construction in Progress	16,352,771	18,028,664	-
Accumulated Depreciation	(49,996,511)	(62,269,868)	(11,194)
<b>Total Assets</b>	<b>134,115,258</b>	<b>142,020,523</b>	<b>3,031,416</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Pension Related Outflows	4,538,440	1,597,883	-
Deferred Charge on Refunding	593,652	143,517	-
<b>Total Deferred Outflows of Resources</b>	<b>\$ 5,132,092</b>	<b>\$ 1,741,400</b>	<b>\$ -</b>

	Primary Government		Component Unit
	Governmental Activities	Business-Type Activities	Seguin Economic Development Corporation
<b>LIABILITIES</b>			
Accounts Payable and Other Current Liabilities	\$ 3,240,273	\$ 3,879,682	\$ 43,934
Unearned Revenue	274,997	449,928	724,925
Accrued Interest Payable	232,155	-	232,155
Due to Component Unit/Primary Government	190,351	-	190,351
Customer Deposits	-	619,800	619,800
Payable from Restricted Assets:			
Accrued Interest Payable	-	272,622	272,622
Current Portion of Long-Term Debt	-	1,773,378	1,773,378
Noncurrent Liabilities:			
Due within One Year	3,916,995	251,425	4,168,420
Due in more than One Year	101,236,211	58,174,303	159,410,514
<b>Total Liabilities</b>	<b>109,990,982</b>	<b>65,421,138</b>	<b>174,512,120</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	30,491,009	49,099,409	79,590,418
Restricted for:			
Tourism & Economic Development	1,066,076	-	1,066,076
Public Safety	573,590	-	573,590
Public Service	283,573	-	283,573
Debt Service	883,475	520,794	1,404,269
Impact Fees	-	2,455,075	2,455,075
Unrestricted	(3,141,355)	26,265,507	23,124,152
<b>Total Net Position</b>	<b>\$ 30,156,368</b>	<b>\$ 78,340,785</b>	<b>\$ 2,164,587</b>

See accompanying notes to basic financial statements.

See accompanying notes to basic financial statements.



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

Functions and Programs	Expenses			Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Direct	Indirect Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
<b>Primary Government:</b>									
Governmental Activities:									
General Government	\$ 8,757,882	\$ (4,641,289)	\$ 3,647,445	\$ 382,005	\$ 8,393	\$ (78,750)	\$ -	\$ (78,750)	\$ -
Public Safety	15,578,523	-	3,478,473	126,314	44,642	(11,929,094)	-	(11,929,094)	-
Public Service	9,644,071	-	3,493,086	110,087	2,814,972	(3,225,926)	-	(3,225,926)	-
Interest on Long-term Debt	2,864,443	-	-	-	-	(2,864,443)	-	(2,864,443)	-
Total Governmental Activities	36,844,919	(4,641,289)	10,619,004	618,406	2,868,007	(18,098,213)	-	(18,098,213)	-
<b>Business-Type Activities</b>									
Utility	41,090,227	4,641,289	49,979,572	-	1,845,532	-	6,093,588	6,093,588	-
Total Business-Type Activities	41,090,227	4,641,289	49,979,572	-	1,845,532	-	6,093,588	6,093,588	-
<b>Total Primary Government</b>	<b>\$ 77,935,146</b>	<b>\$ -</b>	<b>\$ 60,598,576</b>	<b>\$ 618,406</b>	<b>\$ 4,713,539</b>	<b>(18,098,213)</b>	<b>6,093,588</b>	<b>(12,004,625)</b>	<b>-</b>
<b>Component Unit:</b>									
Seguin Economic Development Corporation	1,313,174	\$ -	\$ 7,200	4,453	\$ -	-	-	-	(1,301,521)
<b>Total Component Unit</b>	<b>\$ 1,313,174</b>	<b>\$ -</b>	<b>\$ 7,200</b>	<b>\$ 4,453</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,301,521)</b>
<b>General Revenues:</b>									
Taxes									
Property Taxes						9,362,955		9,362,955	
Franchise Taxes						1,096,104		1,096,104	
Sales Taxes						6,271,333		6,271,333	1,239,155
Occupancy Taxes						842,217		842,217	
Industrial District Agreement Annual Payment						531,294		531,294	
Gain on Sale of Capital Assets						-	3,601	3,601	
Interest and Investment Earnings						400,790	389,947	790,737	17,123
<b>Total General Revenues</b>						<b>18,504,693</b>	<b>393,548</b>	<b>18,898,241</b>	<b>1,256,278</b>
Transfers						81,723	(81,723)	-	-
<b>Change in Net Position</b>						<b>488,203</b>	<b>6,405,413</b>	<b>6,893,616</b>	<b>(45,243)</b>
<b>Net Position at Beginning of Year</b>						<b>29,668,165</b>	<b>71,935,372</b>	<b>101,603,537</b>	<b>2,209,830</b>
<b>Net Position at End of Year</b>						<b>\$ 30,156,368</b>	<b>\$ 78,340,785</b>	<b>\$ 108,497,153</b>	<b>\$ 2,164,587</b>

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	General Fund	2016 Certificates of Obligation	2016-A Certificates of Obligation	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 291,306	-	-	244	283,495	\$ 575,045
Investments	13,367,512	-	-	885,667	6,887,074	21,140,253
Receivables (net of allowances for uncollectibles):						
Taxes	1,701,228	-	-	229,719	198,274	2,129,221
Accounts	759,016	-	-	-	191,183	950,199
Grants	445,449	-	-	-	-	445,449
Miscellaneous	182,937	-	-	-	-	182,937
Inventories	22,167	-	-	-	-	22,167
Prepaid Items	98,671	-	-	-	43,326	141,997
Restricted Assets:						
Cash and Cash Equivalents	-	12,213	25,978	-	36,603	74,794
Investments	-	5,522,439	7,936,488	-	2,120,172	15,579,099
<b>Total Assets</b>	<b>\$ 16,868,286</b>	<b>\$ 5,534,652</b>	<b>\$ 7,962,466</b>	<b>\$ 1,115,630</b>	<b>\$ 9,760,127</b>	<b>\$ 41,241,161</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 1,623,372	\$ 12,509	\$ 281,657	-	\$ 596,264	\$ 2,513,802
Accrued Expenditures	639,414	-	-	-	15,248	654,662
Due to Component Unit	190,351	-	-	-	-	190,351
Unearned Revenues	248,906	-	-	-	26,091	274,997
Due to Other Funds	494	-	-	-	-	494
Due to Others	10,539	-	-	-	53,870	64,409
<b>Total Liabilities</b>	<b>2,713,076</b>	<b>12,509</b>	<b>281,657</b>	<b>-</b>	<b>691,473</b>	<b>3,698,715</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	981,756	-	-	222,489	-	1,204,245
<b>Total Deferred Inflows of Resources</b>	<b>981,756</b>	<b>-</b>	<b>-</b>	<b>222,489</b>	<b>-</b>	<b>1,204,245</b>
<b>FUND BALANCE</b>						
<i>Nonspendable:</i>						
Prepays and Inventory	120,838	-	-	-	43,326	164,164
<i>Restricted:</i>						
Tourism & Economic Development	-	-	-	-	1,066,076	1,066,076
Public Safety	2,605	-	-	-	570,985	573,590
Public Service	5,300	-	-	-	278,273	283,573
Capital Projects	-	5,522,143	7,680,809	-	2,132,357	15,335,309
Debt Service	-	-	-	893,141	-	893,141
<i>Committed:</i>						
Stabilization Arrangement	1,536,104	-	-	-	-	1,536,104
Aquatic/ Golf Fees	-	-	-	-	214,185	214,185
<i>Assigned</i>						
Assigned	3,440	-	-	-	4,763,452	4,766,892
<i>Unassigned</i>						
Unassigned	11,505,167	-	-	-	-	11,505,167
<b>Total Fund Balances</b>	<b>13,173,454</b>	<b>5,522,143</b>	<b>7,680,809</b>	<b>893,141</b>	<b>9,068,654</b>	<b>36,338,201</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS &amp; FUND BALANCES</b>	<b>\$ 16,868,286</b>	<b>\$ 5,534,652</b>	<b>\$ 7,962,466</b>	<b>\$ 1,115,630</b>	<b>\$ 9,760,127</b>	<b>\$ 41,241,161</b>

See accompanying notes to basic financial statements.

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

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 36,338,201

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 91,443,641

Internal service funds are used by management to charge costs related to employee insurance. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. 1,423,549

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 1,204,248

Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period and, therefore, not reported in the funds:

General Bonded Debt	74,680,288
Unamortized Premiums and Deferred Charges	1,554,282
Capital Leases	1,517,298
Net Other Post Employment Benefit Obligation	371,320
Net Pension Liability (Net of Deferred Outflows)	20,601,980
Compensated Absences	1,295,948
	(100,021,116)

Accrued interest payable on long-term bonds is not due and payable in the current period and, therefore, not reported in the funds. (232,155)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 30,156,368



**It's real.**

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

	General Fund	2016 Certificates of Obligation	2016-A Certificates of Obligation	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 12,678,017	\$ -	\$ -	3,964,599	849,391	\$ 17,492,007
Licenses and Permits	941,986	-	-	-	120,350	1,062,336
Intergovernmental	1,396,474	171,758	-	344,375	239,126	2,151,753
Charges for Services	5,711,530	-	-	-	1,141,006	6,852,536
Fines and Forfeits	1,707,497	-	-	-	202,209	1,909,706
Interest	144,635	64,930	70,182	19,450	95,290	394,487
Miscellaneous	819,081	-	-	-	101,560	920,641
<b>Total Revenues</b>	<b>23,399,220</b>	<b>236,688</b>	<b>70,182</b>	<b>4,328,424</b>	<b>2,748,932</b>	<b>30,783,446</b>
<b>EXPENDITURES</b>						
Current:						
General Government	3,070,934	-	-	-	1,931,458	5,002,392
Public Safety	13,497,928	-	-	-	-	13,497,928
Public Service	7,191,996	-	-	-	-	7,191,996
Nondepartmental	2,386,674	-	-	-	339,484	2,726,158
Indirect Cost Allocation (Recovery)	(4,641,289)	-	-	-	-	(4,641,289)
Capital Projects/Outlay	929,461	3,406,181	1,189,373	-	5,205,577	10,730,592
Debt Service:						
Principal	-	-	-	2,553,742	307,116	2,860,858
Interest and Fiscal Charges	-	-	-	2,689,139	16,310	2,705,449
Bond Issue Costs	-	-	216,893	-	-	216,893
<b>Total Expenditures</b>	<b>22,435,704</b>	<b>3,406,181</b>	<b>1,406,266</b>	<b>5,242,881</b>	<b>7,799,945</b>	<b>40,290,977</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	963,516	(3,169,493)	(1,336,084)	(914,457)	(5,051,013)	(9,507,531)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In	95,000	-	-	565,000	2,717,486	3,377,486
Transfers Out	(3,043,073)	-	-	-	(261,590)	(3,304,663)
Proceeds of Capital Lease Financing	-	-	-	-	1,698,015	1,698,015
Bonded Debt Issues	-	-	8,539,773	260,227	-	8,800,000
Premiums on Issuance of Bonds	-	-	477,120	-	-	477,120
<b>Total Other Financing Sources (Uses)</b>	<b>(2,948,073)</b>	<b>-</b>	<b>9,016,893</b>	<b>825,227</b>	<b>4,153,911</b>	<b>11,047,958</b>
Net Change in Fund Balance	(1,984,557)	(3,169,493)	7,680,809	(89,230)	(897,102)	1,540,427
Fund Balances at Beginning of Year	15,158,011	8,691,636	-	982,371	9,965,756	34,797,774
Fund Balances at End of Year	\$ 13,173,454	\$ 5,522,143	\$ 7,680,809	\$ 893,141	\$ 9,068,654	\$ 36,338,201

See accompanying notes to basic financial statements.

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,540,427

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Additions	10,327,527
Contributions from Developers	2,093,513
Current Period Depreciation	<u>(4,054,182)</u>
	8,366,858

In the Statement of Activities, only the gain or loss on the disposal of a capital asset is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of disposed assets.

(19,949)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

(280,005)

Increase in Unavailable Revenues

The issuance of long-term-debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Proceeds of New Debt	(10,498,015)
Premiums on Debt Issues	(477,120)
Principal Payments	2,860,858
Amortization of Deferred Charges & Premiums	<u>80,009</u>
	(8,034,268)

The governmental funds report pension and other postemployment benefit contributions as expenditures when paid. However, in the statement of activities, differences between pension plan and other postemployment benefit contributions and costs for the year are reported as an asset or obligation.

(1,220,871)

Some expenses reported in the Statement of Activities (including compensated absences and accrued interest expense) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(167,252)

Internal service funds are used by management to charge the costs of employee insurance to individual funds. The net revenue/(loss) is reported with governmental activities.

303,263

\$ 488,203

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

See accompanying notes to basic financial statements.



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CITY OF SEGUIN, TEXAS  
STATEMENT OF NET POSITION – PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

CITY OF SEGUIN, TEXAS  
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)  
SEPTEMBER 30, 2017

	Business-Type Activities Utility Fund	Governmental Activities Internal Service Funds
<b>ASSETS</b>		
<i>Current Assets</i>		
<i>Cash and Cash Equivalents:</i>		
Restricted Cash	\$ 58,021	\$ -
Unrestricted Cash	1,259,918	277,815
<i>Investments:</i>		
Restricted Investments	13,939,344	-
Unrestricted Investments	26,507,658	1,131,136
Accounts Receivable (Net)	5,733,206	-
Miscellaneous Receivables	1,929,770	18,082
Due from Other Funds	-	494
Due from Component Unit	19,035	-
Inventories	1,714,946	-
Prepaid Items	42,470	3,423
<i>Total Current Assets</i>	<u>51,204,368</u>	<u>1,430,950</u>
<i>Noncurrent Assets</i>		
Net Present Value of Lease Financing	461,972	-
	461,972	-
<i>Capital Assets:</i>		
Land	727,026	-
Buildings and Improvements	35,938,858	-
Improvements Other than Buildings	89,868,569	-
Transportation & Equipment	8,060,934	-
Construction in Progress	18,028,664	-
Accumulated Depreciation	(62,269,868)	-
<i>Capital Assets, net</i>	<u>90,354,183</u>	<u>-</u>
<i>Total Noncurrent Assets</i>	<u>90,816,155</u>	<u>-</u>
<b>Total Assets</b>	<u>142,020,523</u>	<u>1,430,950</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Pension Related Outflows	1,597,883	-
Deferred Charge on Refundings	143,517	-
<b>Total Deferred Outflows of Resources</b>	<u>\$ 1,741,400</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

	Business-Type Activities Utility Fund	Governmental Activities Internal Service Funds
<b>LIABILITIES</b>		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 3,689,357	\$ 7,401
Accrued Expenses	423,238	-
Unearned Revenue	449,928	-
Customer Deposits	619,800	-
Current Maturities of Capital Leases	18,512	-
<i>Current Liabilities</i>	<u>5,200,835</u>	<u>7,401</u>
<i>Current Liabilities Payable from Restricted Assets:</i>		
Accrued Interest Payable	272,622	-
Current Portion of Long-term Bonds	1,773,378	-
<i>Current Liabilities Payable from Restricted Assets</i>	<u>2,046,000</u>	<u>-</u>
<i>Total Current Liabilities</i>	<u>7,246,835</u>	<u>7,401</u>
<i>Noncurrent Liabilities:</i>		
Capital Lease Payable	17,608	-
Compensated Absences	187,132	-
Net Other Post Employment Benefit Obligation	137,339	-
Net Pension Liability	8,453,199	-
Revenue & Refunding Bonds Payable	49,379,025	-
<i>Total Noncurrent Liabilities</i>	<u>58,174,303</u>	<u>-</u>
<b>Total Liabilities</b>	<u>65,421,138</u>	<u>7,401</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	49,099,409	-
Restricted for:		
Debt Service	520,794	-
Impact Fees	2,455,075	-
Unrestricted	26,265,507	1,423,549
<b>Total Net Position</b>	<u>\$ 78,340,785</u>	<u>\$ 1,423,549</u>

See accompanying notes to basic financial statements.

Continued

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

	Business-Type Activities	Governmental Activities
	Utility	Internal Service
	Fund	Funds
<b>OPERATING REVENUES</b>		
Charges for Utility Service	\$ 47,834,200	-
Charges for Premiums	-	3,680,881
Miscellaneous Revenues	2,145,371	-
<b>Total Operating Revenues</b>	<b>49,979,571</b>	<b>3,680,881</b>
<b>OPERATING EXPENSES</b>		
Administration	2,294,180	3,392,820
Operation and Maintenance:		
Electric Distribution	21,710,301	-
Utility Services	1,135,092	-
Water Production	5,251,391	-
Water/Sewer Maintenance	4,384,411	-
Sewer	1,832,403	-
Economic Development	286,973	-
Facilities Maintenance	728,018	-
Information Technology	360,369	-
City Attorney	226,845	-
Nondepartmental	1,021,264	-
Indirect Cost Allocation	4,641,289	-
<b>Total Operating Expenses</b>	<b>43,872,536</b>	<b>3,392,820</b>
<b>OPERATING INCOME (LOSS)</b>	<b>6,107,035</b>	<b>288,061</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	389,947	6,302
Gain (Loss) on Sale of Assets	3,601	-
Interest and Fiscal Charges	(1,559,703)	-
Bond Issue Costs	(299,276)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(1,465,431)</b>	<b>6,302</b>
<b>Net Income (Loss) Before Contributions and Transfers</b>	<b>4,641,604</b>	<b>294,363</b>
Capital Contributions	1,845,532	-
Transfers In	16,590	8,900
Transfers Out	(98,313)	-
	<b>1,763,809</b>	<b>8,900</b>
<b>Change in Net Position</b>	<b>6,405,413</b>	<b>303,263</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>71,935,372</b>	<b>1,120,286</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 78,340,785</b>	<b>\$ 1,423,549</b>

See accompanying notes to basic financial statements.



**It's real.**

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

	Business-Type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
<b>Cash Flows From Operating Activities:</b>		
Cash Received From Customers	\$ 49,287,029	\$ 3,670,916
Cash Paid for Employee Wages & Benefits	(7,450,073)	-
Cash Paid to Suppliers for Goods & Services	(29,264,614)	(3,394,753)
Cash Paid General Fund for Indirect Costs	(4,641,289)	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>7,931,053</b>	<b>276,163</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers From Other Funds	(81,723)	8,900
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(81,723)</b>	<b>8,900</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchase/Construction of Capital Assets	(14,459,123)	-
Proceeds from Revenue and Refunding Bonds	8,415,000	-
Premiums received on Bonds	494,961	-
Principal Payments on Long-term Bonds	(1,471,259)	-
Interest and Fiscal Charges Paid	(1,590,329)	-
Bond Issue Costs	(299,276)	-
Advances (To) From Component Unit	734	-
Proceeds from Sale of Capital Assets	3,601	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(8,905,691)</b>	<b>-</b>
<b>Cash Flows From Investing Activities:</b>		
Sale/(Purchase) of Investment Securities	578,156	(262,076)
Investment Interest Received	389,947	6,303
Lease Financing - Principal Payments Received	39,105	-
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>1,007,208</b>	<b>(255,773)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(49,153)</b>	<b>29,290</b>
<b>Cash and Cash Equivalents at Beginning of Year:</b>		
Cash and Cash Equivalents	1,331,333	248,525
Restricted Cash and Cash Equivalents	35,759	-
	<u>1,367,092</u>	<u>248,525</u>
<b>Cash and Cash Equivalents at End of Year:</b>		
Cash and Cash Equivalents	1,259,918	277,815
Restricted Cash and Cash Equivalents	58,021	-
	<u>\$ 1,317,939</u>	<u>\$ 277,815</u>

See accompanying notes to basic financial statements.

Continued

CITY OF SEGUIN, TEXAS  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Income (Loss)	\$ 6,107,035	\$ 288,061
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation:	3,505,895	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(1,048,425)	(9,965)
Inventory/Prepaid Items	108,463	(3,423)
Net Pension Asset/Deferred Pension Related Outflows	170,892	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(1,582,433)	1,490
Accrued Expenses	26,153	-
Net Other Postemployment Benefit Obligation	47,985	-
Net Pension Liability	239,605	-
Unearned Revenue	354,398	-
Customer Deposits	1,485	-
	<u>1,824,018</u>	<u>(11,898)</u>
	<u>\$ 7,931,053</u>	<u>\$ 276,163</u>
<b>Transactions Not Affecting Cash and Cash Equivalents:</b>		
Capital and Related Financing Activities:		
Contributions from Developers - Capital Assets	\$ 1,845,532	\$ -

See accompanying notes to basic financial statements.



CITY OF SEGUIN, TEXAS  
STATEMENT OF FIDUCIARY NET POSITION  
SEPTEMBER 30, 2017

CITY OF SEGUIN, TEXAS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>ASSETS</b>	Private Purpose Trust Funds	Agency Fund
Cash and Cash Equivalents	\$ 1,915	\$ 27,507
Investments	283,573	-
Inventory	399,431	-
<b>Total Assets</b>	<u>644,919</u>	<u>27,507</u>
<b>LIABILITIES</b>		
Accounts Payable/ Due to Others	-	27,507
<b>Total Liabilities</b>	<u>-</u>	<u>27,507</u>
<b>NET POSITION</b>		
Held in Trust for Scholarship	2,491	
Held in Trust for Riverside Cemetery	14,768	
Held in Trust for Industrial Development	627,660	
<b>Total Net Position</b>	<u>\$ 644,919</u>	

<b>ADDITIONS</b>	Private Purpose Trust Funds
Interest	\$ 2,264
Total Additions	<u>2,264</u>
<b>DEDUCTIONS</b>	
Distributions to Participants	2,000
Total Deductions	<u>2,000</u>
<b>Change in Net Position</b>	264
<b>Net Position, Beginning of Year</b>	<u>644,655</u>
<b>Net Position, End of Year</b>	<u>\$ 644,919</u>

See accompanying notes to basic financial statements.

See accompanying notes to basic financial statements.

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Seguin, Texas ("City") was incorporated in 1853. The City Charter was adopted on December 7, 1971, under the provisions of the Home Rule Charter Act of the State of Texas. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: police and fire protection, health services, maintenance of streets, planning and zoning, parks and recreation, general administrative services, electric, water, and wastewater services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

**1. REPORTING ENTITY**

*Component Units*

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units, if any existed, would be combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

The Seguin Economic Development Corporation, a nonprofit corporation, was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes, Annotated, Article 5190.6, Section 4A. The Corporation is organized exclusively for public purposes of the City of Seguin, and the City Council appoints directors of the Corporation. It receives all proceeds from the 0.25% sales tax adopted in 1994 for economic development in Seguin. The corporation meets the criteria of a discretely presented component unit, described above, and is presented in the government-wide financial statements. Complete financial statements for the Seguin Economic Development Corporation may be obtained at City Hall.

*Joint Ventures*

A joint venture is a legally separate entity that results from a contractual arrangement and that is owned, operated, or governed by two or more participating governments. The following entities meet the criteria as joint ventures:

The Guadalupe Regional Medical Center is a joint venture between the City of Seguin and Guadalupe County. Each participating government appoints one-half of the board of directors and approves annual budgets. In addition, the participating governments are financially responsible for indigent health care provided by the hospital, and are contingently liable for hospital debts. Separate financial statements of the Guadalupe Regional Medical Center may be obtained by contacting the hospital administrator.



**It's real.**

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

1. REPORTING ENTITY (Continued)

*Joint Ventures (Continued)*

The Schertz/Seguin Local Government Corporation is a public, nonprofit corporation organized to aid, assist, and act on behalf of the cities of Schertz and Seguin in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations. Separate financial statements for the Schertz/Seguin Local Government Corporation may be obtained at City Hall.

Summarized financial data for joint ventures has been provided in Note M.

2. 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 information on all of the activities of the City and its component unit (except for City fiduciary activity). The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. The primary government is reported separately from the component unit within the government-wide statements.

The statement of activities reflects 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included 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, 2016 Certificates of Obligation (Capital Projects) Fund, 2016-A Certificates of Obligation (Capital Projects) Fund, and the Debt Service Fund meet criteria as **major governmental funds**. Each major fund is reported in separate columns in the fund financial statements. Nonmajor funds include other Special Revenue and Capital Projects Funds. The combined amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. Detailed statements for nonmajor funds are presented in the Combining Fund Statements and Schedules as "Supplementary Information".

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3. 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. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types, which have been accrued, are revenue from investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes and grants not restricted to specific programs and investment earnings.

**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 deferred revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

**The General Fund** is the general operating fund of the City 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 of idle funds. Primary expenditures are for general administration, public safety, public service and capital acquisition. Nondepartmental expenses include insurance costs, professional services and miscellaneous costs that do not benefit any one department, as well as contributions to local charitable organizations and the Guadalupe Regional Medical Center.

**2016 Certificates of Obligation Fund** is used to account for funds received from the 2016 Certificates of Obligation to finance major improvements to the City's fairgrounds, constructing an animal services facility, as well as certain street and drainage improvements.

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

**2016-A Certificates of Obligation Fund** is used to account for funds received from the 2016-A Certificates of Obligation to finance street and drainage improvements to selected city streets.

**Debt Service Fund** accounts for ad valorem tax and contributions from the component unit to support city bonded debt.

Nonmajor funds include Special Revenue Funds (other than major projects and grants) and Capital Projects Funds.

**Proprietary fund level financial statements** are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Fund is the Utility Fund (used to account for the provision of electric, water and sewer services to residents) and the Internal Service Funds used to account for the City's group medical insurance program and workers compensation benefits.

Revenues are derived from charges for services for utilities, city contributions, employee and retiree/cobra premiums, and investment of idle funds. Expenses are charges incurred for operating, purchases of electricity and water, premiums and administrative expenses for insurance.

The **Proprietary Funds** are accounted for using the accrual basis of accounting as follows:

Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

**Fiduciary fund level financial statements** include fiduciary funds which are classified into private purpose trust and agency funds. Fiduciary fund reporting focuses on net position and changes in net position. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (d). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"). Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAAm (or equivalent) rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

The City reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments are stated at fair value (plus accrued interest) except for money market investments and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost. Likewise, certificates of deposit are stated at amortized cost (see Note B).

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 and become due October 1, 2016 and past due after January 31, 2017. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectible in the amount of \$27,616.

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

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

6. ACCOUNTS RECEIVABLE (Continued)

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

8. INVENTORIES & PREPAID ITEMS

Inventories of consumable supplies are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Inventories of repair and replacement parts for the utility system are valued at cost, which approximates market, using the moving average cost method.

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 and in the fund financial statements are offset by a reservation of fund balance which indicates they do not represent "available spendable resources."

9. RESTRICTED ASSETS

Certain proceeds of General Obligation Bonds, Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds are segregated to report those proceeds of revenue bond issuances that are restricted for use in construction. Funds are also segregated to provide for debt service as provided under bond indenture agreements.

10. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, such as equipment, are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sidewalks, curbs and bridges.

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

10. CAPITAL ASSETS (Continued)

Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation, with the exception of works of art and capital assets received in a service concession arrangement. Those assets are reported at acquisition value rather than fair value.

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

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

ASSETS	YEARS
Buildings and improvements	20 to 40 years
Improvements other than buildings	20 to 40 years
Utility system in service	20 to 67 years
Machinery and equipment	5 to 15 years

11. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category: deferred pension related costs which will be included in the subsequent actuarial valuation, and deferred charge on refundings reported in the government-wide statement of net position, as well as the Proprietary Fund statement of position. 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.

*Deferred inflows of resources* represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under a modified accrual basis of accounting. Unavailable revenues from property tax and EMS receivables are deferred and recognized as an inflow of resource in the period the amounts become available.

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**12. COMPENSATED ABSENCES**

The City permits employees to accumulate earned but unused vacation pay benefits up to the amount earned in two years. Upon resignation, an employee may receive pay for any unused accrued vacation provided the employee gives two weeks written notice of the resignation and is not subject to discharge for misconduct. Unused sick leave may be accumulated to certain limits. In the event of termination, no reimbursement is made for accumulated sick leave. No liability is reported for unpaid accumulated sick leave. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

**13. UNEARNED REVENUE**

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue.

**14. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

**15. PENSIONS**

The net pension liability, deferred outflows related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS' fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**16. FUND EQUITY**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council – the government's highest level of decision making authority. The City Council is the highest level of decision-making authority for the city that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (by adoption of another ordinance) to remove or revise the limitation.

The City Council adopted an ordinance in March 2012 establishing an *emergency fund stabilization arrangement*. The Ordinance requires additions to the fund in the event the fund balance falls below \$2,000,000. Additions are to come from interest earnings, direct transfers from the General Fund and/or Utility Fund, or reimbursements from insurance or grants for expenditures incurred by the fund. The stabilization fund may be expended on recovery efforts for public infrastructure damage that occurs as a result of a disaster declared by the City or the State. During fiscal year 2017, significant expenditures occurred due to Hurricane Harvey. Guadalupe County was included in the federal disaster area and the City anticipates a partial reimbursement from FEMA for expenses incurred due to flood damage.

Assigned fund balance. This classification reflects the amounts constrained by the city's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council has designated the City Manager as the responsible agent for assigning fund balances. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**16. FUND EQUITY (Continue-d)**

As of September 30, 2017, the City Manager had assigned fund balances for the following:

- Excess recycling fees over expenditures were assigned for future expenditures associated with "green" waste disposal (\$1,348), also favorable budget variances for street maintenance were assigned for future street projects (\$2,092).
- Funds set aside in nonmajor capital project funds that are not otherwise restricted by bond covenants are assigned for specific capital projects.

Total assigned funds in the General Fund were \$3,440. Total assigned balances in nonmajor capital project funds were \$4,763,452.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

The City Council has set a General Fund minimum fund balance target at three months of expenditures and recurring transfers. No other fund balance policies exist.

**17. NET POSITION**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**18. INTERFUND TRANSACTIONS**

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Utility (Proprietary) Fund an indirect cost percentage of general government administration expenses that are paid through the General Fund. During the year ended September 30, 2017, the City allocated \$4,641,289 as a transfer for such services. The indirect cost allocation is reflected as an operating expense in the Utility Fund, and a reduction of current expenditures in the General Fund, and in a separate column in the Statement of Activities.

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**19. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for electric, water, and sewer services and premiums for employee insurances. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

**20. USE OF ESTIMATES**

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

**21. COMPARATIVE DATA/RECLASSIFICATIONS**

Comparative data for the prior year has been provided for the General Fund and Utility Fund in the fund financial statements in order to provide an understanding of the changes in the financial position and operation of these funds. Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. The reclassifications had no effect on the changes in financial position.

**22. NEW REPORTING REQUIREMENTS**

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

**NOTE B -- DEPOSITS AND INVESTMENTS**

As of September 30, 2017, the City of Seguin had the following investments:

Investment Type	Fair Value	Input Level	Weighted Average Maturity (Days)
<i>Primary Government</i>			
Local Government Investment Pools:			
TexPool	\$ 7,017,906	1	37
LOGIC	57,271,175	1	78
Certificates of Deposit	7,301,978	1	427
Florida State Revenue Bond	6,990,000	1	269
	<u>\$ 78,581,059</u>		
Portfolio Weighted Average Maturity			124
<i>Component Unit</i>			
Local Government Investment Pools:			
TexPool	\$ 193,868	1	37
LOGIC	121,797	1	78
	<u>\$ 315,665</u>		
Portfolio Weighted Average Maturity			53

*Investment Rate Risk.* The City and component unit manage exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

*Credit Risk.* The City's investment policy limits investments to obligations of the United States (up to 95% of total invested funds) or its agencies and instrumentalities (maximum 80% of funds); direct obligations of the State of Texas; obligations of states, agencies, contracts, cities, and other political subdivisions rated as to investment quality of not less than AAA by a nationally recognized investment firm. U.S. Government Securities are not considered to have credit risk and do not require disclosure of credit quality. The Florida State Revenue Bond is rated AA and Aa3 by S&P and Moody's respectively.

The City may also invest funds in government investment pools provided the pool maintains a AAA rating, the pool maintains a stable asset value, and the average dollar weighted maturity does not exceed 90 days. As of September 30, 2017, the investments in TexPool and LOGIC were rated AAAm by Standard & Poor's. The City may invest in Money Market Mutual funds that are regulated by the SEC and have a dollar weighted average stated maturity of 90 days or less and maintain a net asset value of \$1.00 per share.

The City's and Component Units' investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Both Texpool and Logic Pools operate in a manner consistent with Rule 2a7. Therefore, the investments are reported at \$1 per share, which approximates fair value. There was no change in fair value of the investment pools for the year ended September 30, 2017.

**NOTE B -- DEPOSITS AND INVESTMENTS (Continue d)**

*Custodial Credit Risk - Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2017, the government's deposits were fully collateralized or insured by FDIC. The City's certificates of deposit are brokered through the City's depository and are fully insured through FDIC.

The Component Unit had deposits that were fully insured by FDIC.

*Custodial Credit Risk - Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2017, the City and Component Unit were not exposed to custodial credit risk.

**NOTE C -- PROPERTY TAX CALENDAR**

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Guadalupe County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2016, upon which the fiscal 2017 levy was based, was \$1,798,558,709 (i.e., market value less exemptions). The estimated market value was \$2,793,328,727 making the taxable value 64% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2017, was \$0.5412 per \$100 of assessed value, which means that the City has a tax margin of \$1.9588 for each \$100 value and could increase its annual tax levy by approximately \$35,230,168 based upon the present assessed valuation of \$1,798,558,709 before the limit is reached. However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Tax Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's effective tax rate.

Property taxes are recorded as receivables and unearned revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts (if any), at the levy date.



CITY OF SEGUIN, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

CITY OF SEGUIN, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

**NOTE D -- INTERFUND RECEIVABLE/PAYABLE**

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds had not been paid or received as of September 30, 2017, balances of interfund amounts receivable or payable have been recorded as follows:

	Due From	Due To
<b>Primary Government</b>		
General Fund	\$ -	\$ 494
Internal Service Fund	-	494
<b>Internal Service Fund</b>		
General Fund	494	-
Enterprise Fund	494	-
Totals	\$ 494	\$ 494
<b>Component Unit</b>		
General Fund	19,035	190,351
Enterprise Fund	19,035	190,351
Totals	\$ 38,070	\$ 380,702

**NOTE E -- NOTES RECEIVABLE (COMPONENT UNIT)**

The SEDC (Component Unit) provides incentives in the form of grants and notes receivable to area businesses in conjunction with its function of generating economic development. Various notes receivable were outstanding as of September 30, 2017 with interest rates ranging from 3.0% to 5.5% and mature from 2023 through 2026. Future payments on the notes are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 37,211	\$ 12,204	\$ 49,415
2019	39,270	10,145	49,415
2020	41,443	7,972	49,415
2021	43,739	5,676	49,415
2022	46,162	3,253	49,415
2023-2026	37,174	971	38,145
	\$ 244,999	\$ 40,221	\$ 285,220

**NOTE F -- NET PRESENT VALUE OF LEASE FINANCING**

The City has leased property located at 2460 Crossroads Blvd., consisting of a 49,120 square foot building and improvements, to Pure and Gentle Soap Products, Inc. under a sales-type lease agreement. The lease is for an original term of twenty (20) years and transfers property to the lessee for \$1 at the end of the lease term (2026), or earlier by paying the remaining base rental payments under the lease, discounted at 5.75%.

The agreement calls for the lessee to operate a business within the premises in order to generate sales tax revenue, property tax and utility revenue. Failure to continue the business would be considered a breach of the contract.

Future minimum lease payments under the lease are as follows:

September 30,	
2018	\$ 75,151
2019	75,151
2020	75,151
2021	98,277
2022	105,986
Thereafter	344,615
Total Payments	774,331
Less: Amount Representing Interest	(312,359)
Net Present Value of Lease Financing	\$ 461,972

**NOTE G -- CAPITAL ASSETS**

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

	Balance 10/1/2016	Additions	Disposals	Transfers/ Adjustments	Balance 9/30/2017
<b>Governmental Activities</b>					
Land	\$ 4,467,991	\$ 116,825	\$ -	\$ -	\$ 4,584,816
Construction in Progress	19,981,296	3,280,013	-	(6,908,538)	16,352,771
Total Assets Not Depreciated	24,449,287	3,396,838	-	(6,908,538)	20,937,587
Buildings and Improvements	33,889,397	2,349,273	-	1,597,506	37,836,176
Improvements Other Than Buildings	56,208,317	3,271,158	-	5,311,032	64,790,507
Transportation and Equipment	15,063,342	3,403,771	(591,230)	-	17,875,883
Totals at Historical Cost	129,610,343	12,421,040	(591,230)	-	141,440,152
Less Accumulated Depreciation:					
Buildings and Improvements	(7,465,415)	(701,824)	-	-	(8,167,239)
Improvement Other Than Buildings	(29,061,881)	(1,726,811)	-	-	(30,788,692)
Transportation and Equipment	(9,986,314)	(1,625,547)	571,281	-	(11,040,580)
Totals	(46,513,610)	(4,054,182)	571,281	-	(49,996,511)
Governmental Capital Assets, Net	\$ 83,096,733	\$ 8,366,858	\$ (19,949)	\$ -	\$ 91,443,641

CITY OF SEGUIN, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

CITY OF SEGUIN, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

**NOTE G -- CAPITAL ASSETS**

<i>Business-Type Activities</i>	Balance 10/1/2016	Additions	Disposals	Transfers/ Adjustments	Balance 9/30/2017
Land	\$ 727,026	-	-	-	\$ 727,026
Construction in Progress	34,102,978	7,317,047	-	(23,391,361)	18,028,664
Total Assets Not Depreciated	34,830,004	7,317,047	-	(23,391,361)	18,755,690
Buildings and Improvements	24,672,813	-	-	11,266,045	35,938,858
Utility System	69,105,148	8,638,105	-	12,125,316	89,868,569
Transportation and Equipment	7,755,774	349,503	(44,343)	-	8,060,934
Totals at Historical Cost	136,365,739	16,304,655	(44,343)	-	152,024,051
Less Accumulated Depreciation:					
Buildings and Improvements	(18,581,432)	(254,276)	-	-	(18,835,708)
Improve Other Than Buildings	(34,791,118)	(2,747,214)	-	-	(37,538,332)
Transportation and Equipment	(5,435,766)	(804,405)	44,343	-	(5,895,828)
Total	(58,808,316)	(3,505,895)	44,343	-	(62,269,868)
Business-Type Capital Assets, Net	\$ 77,555,423	\$ 12,798,760	\$ -	\$ -	\$ 90,354,183

<i>Discretely Presented Component Unit</i>	2018	2019	2020	2021
Land	\$ 2,190,912	\$ -	\$ -	\$ -
Buildings and Improvements	89,547	-	-	89,547
Accumulated Depreciation	(9,474)	(1,720)	-	(11,194)
Total	\$ 2,270,985	\$ (1,720)	\$ -	\$ 2,269,265

*Primary Government*

Depreciation Expense was charged to functions as follows:

<i>Governmental Activities:</i>	
General Government	\$ 24,234
Public Safety	1,129,000
Public Service	2,439,704
Nondepartmental	461,244
<i>Total Governmental Activities</i>	\$ 4,054,182
<i>Business-Type Activities:</i>	
Administration	\$ 5,865
Electric	781,750
Water Production	475,362
Water Distribution	1,551,137
Sewer Plant	355,668
Other	336,113
<i>Total Business-Type Activities</i>	\$ 3,505,895

**NOTE H -- CAPITAL LEASES**

The City has entered into a lease agreement to finance the acquisition of public safety, public works and golf equipment. The City has also financed the acquisition of the Springs Hill Wastewater Collection System through its Utility Fund. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Assets:	Governmental Activities	Business-Type Activities
Police Equipment	\$ 1,360,119	\$ -
Golf Course Equipment	38,405	-
Public Works Equipment	750,324	-
Wastewater Collection System	-	425,000
Less: Accumulated Depreciation	(253,712)	(262,917)
Total	\$ 1,895,136	\$ 162,083

Future minimum obligations and the net present value of these minimum lease payments as of September 30, 2017 were as follows:

	Year Ending September 30,			
	2018	2019	2020	2021
Governmental	\$ 450,771	\$ 508,044	299,582	334,872
Business-Type	-	35,000	35,000	-
Total Payments	1,593,269	1,593,269	70,000	70,000
Less: Amount Representing Interest	(75,971)	(75,971)	(33,880)	(33,880)
Present Value of Minimum Lease Payments	\$ 1,517,298	\$ 1,517,298	\$ 36,120	\$ 36,120

**NOTE I -- LONG-TERM DEBT**

Bonded debt and obligations payable at September 30, 2017, comprise the following individual issues:

<i>General Obligation Bonds:</i>	
\$2,884,816 2011 General Obligation Refunding Bonds due in annual installments of \$265,000 to \$550,000 through September 1, 2021; interest at 2.0% to 3.0%	\$ 1,165,288
\$4,350,000 2013 General Obligation Refunding Bonds due in annual installments of \$65,000 to \$460,000 through February 1, 2024; interest at 1.51%	3,090,000
\$19,785,000 2014 General Obligation Bonds due in annual installments of \$200,000 to \$4,130,000 through February 1, 2034; interest at 3.0 to 6.0%	19,100,000
\$8,465,000 2014 General Obligation Refunding Bonds due in annual installments of \$100,000 to \$1,700,000 through September 1, 2026; interest at 2.0% - 4%	7,310,000
\$9,370,000 2015 General Obligation Refunding Bonds due in annual installments of \$100,000 to \$1,945,000 through September 1, 2028; interest at 2.0% - 5.0%	8,925,000
<i>Total General Obligation Bonds</i>	<u>39,590,288</u>

*Certificates of Obligation:*

\$10,760,000 2010 Certificates of Obligation due in annual installments of \$70,000 to \$2,650,000 through September 1, 2031; interest at 2.0% to 4.25%	10,165,000
\$3,400,000 2011 Certificates of Obligation due in annual installments of \$100,000 to \$290,000 through September 1, 2031; interest at 2.0% to 3.5%	1,955,000
\$2,500,000 2013 Certificates of Obligation due in annual installments of \$100,000 to \$200,000 through September 1, 2028; interest at 2.7%	1,825,000
\$12,445,000 2016 Certificates of Obligation due in annual installments of \$100,000 to \$4,305,000 through September 1, 2036; interest at 3.0% to 5.0%	12,345,000
\$8,800,000 2016A Certificates of Obligation due in annual installments of \$100,000 to \$4,200,000 through September 1, 2037; interest at 3.5% to 5.5%	8,800,000
<i>Total Certificates of Obligation Bonds</i>	<u>35,090,000</u>

**Total Governmental Bonded Debt**

*Utility Fund Revenue Bonds:*

\$7,835,000 Utility System Revenue, Series 2010, due in annual installments of \$65,000 to \$1,065,000 through February 1, 2031; interest at 2.0% to 4.0%	\$ 7,400,000
\$21,405,000 Utility System Revenue, Series 2014, due in annual installments of \$190,000 to \$2,335,000 through February 1, 2037; interest at 3.0% to 5.0%	20,970,000
\$4,430,000 Utility System Revenue, Series 2016, due in annual installments of \$100,000 to \$345,000 through February 1, 2037; interest at 3.0% to 5.0%	4,330,000
\$8,415,000 Utility System Revenue, Series 2017, due in annual installments of \$190,000 to \$620,000 through February 1, 2037; interest at 3.0% to 4.0%	8,415,000
<i>Total Utility Revenue Bonds</i>	<u>41,115,000</u>

*General Obligation Bonds - Utility Portion*

\$1,490,184 2011 General Obligation Refunding Bonds due in annual installments of \$265,000 to \$550,000 through September 1, 2021; interest at 2.0% to 3.0%	264,711
\$4,825,000 2013 General Obligation Refunding Bonds due in annual installments of \$330,000 to \$650,000 through February 1, 2023; interest at 1.51%	3,445,000
\$5,385,000 2015 General Obligation Refunding Bonds due in annual installments of \$25,000 to \$1,025,000 through September 1, 2026; interest at 2.0% to 5.0%	4,875,000
<i>Total GO Refunding Bonds</i>	<u>8,584,711</u>
<b>Total Business-Type Bonded Debt</b>	<u>\$ 49,699,711</u>

**NOTE I -- LONG-TERM DEBT (Continued)**

The City is required by the revenue bond ordinances to establish certain accounts to maintain and operate the Utility System and to provide for the payment of bond principal and interest. Included in these requirements is maintenance of a "Reserve Fund" for the payment of bond principal and interest when other required accounts are insufficient for that purpose. The Reserve Fund is to contain, at a minimum, an amount equal to the average debt service requirement of all the outstanding Utility System Bonds. The Reserve Fund requirement was met with the purchase of a surety bond. The City is in compliance with other significant requirements. The assets of these restricted accounts are classified in the balance sheet as restricted assets.

The annual requirements to amortize all bonded debt and obligations outstanding as of September 30, 2017, including interest payments, are as follows:

Year Ending September 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 2,756,622	\$ 2,739,317	\$ 1,773,378	\$ 1,738,630
2019	2,726,750	2,658,149	1,878,249	1,694,536
2020	2,936,916	2,567,038	1,983,084	1,644,735
2021	2,860,000	2,474,634	2,100,000	1,583,250
2022	3,015,000	2,372,302	2,195,000	1,504,573
2023-2027	17,085,000	10,119,017	11,130,000	6,227,839
2028-2032	20,475,000	6,769,769	13,105,000	3,942,474
2033-2037	22,825,000	2,497,594	15,535,000	1,403,079
	<u>\$ 74,680,288</u>	<u>\$ 32,197,820</u>	<u>\$ 49,699,711</u>	<u>\$ 19,739,116</u>

**NOTE I -- LONG-TERM DEBT (Continue d)**

**Changes in Long-Term Liabilities**

	Balance 10/1/2016	Additions	Reductions	Balance 9/30/2017	Due Within One Year
<i>Governmental Activities</i>					
General Obligation Bonds	\$ 41,464,030	\$ -	\$ (1,873,742)	\$ 39,590,288	\$ 1,961,622
Bond Premiums	1,853,468	477,120	(182,654)	2,147,934	-
Certificates of Obligation	26,970,000	8,800,000	(680,000)	35,090,000	795,000
Capital Leases	126,393	1,698,016	(307,111)	1,517,298	423,476
Compensated Absences	1,154,725	765,995	(624,772)	1,295,948	736,897
Net Other Post Employment					
Benefit Obligations Payable	241,583	129,737	-	371,320	-
Net Pension Liability	24,503,531	636,889	-	25,140,420	-
<b>Total Governmental Activities</b>	<b>96,313,730</b>	<b>12,507,757</b>	<b>(3,668,279)</b>	<b>105,153,208</b>	<b>3,916,995</b>
<i>Business-Type Activities</i>					
Revenue Bonds	33,120,000	8,415,000	(420,000)	41,115,000	700,000
General Obligation Refunding Bonds	9,635,970	-	(1,051,259)	8,584,711	1,073,378
Bond Premiums	1,055,428	494,961	(97,698)	1,452,691	-
Capital Leases	36,120	-	-	36,120	18,512
Compensated Absences	399,941	237,844	(217,741)	420,044	232,913
Net Other Post Employment					
Benefit Obligations Payable	89,354	47,985	-	137,339	-
Net Pension Liability	8,213,594	239,605	-	8,453,199	-
<b>Total Business-Type Activities</b>	<b>52,550,407</b>	<b>9,435,395</b>	<b>(1,786,698)</b>	<b>60,199,104</b>	<b>2,024,803</b>
<b>Total Primary Government</b>	<b>\$ 148,864,137</b>	<b>\$ 21,943,152</b>	<b>\$ (5,454,977)</b>	<b>\$ 165,352,312</b>	<b>\$ 5,941,798</b>

Compensated absences and other postemployment benefit obligation for governmental activities are generally liquidated by the general fund.

*Utility System Revenue Bonds, Series 2017*, were issued in March 2017 in the amount of \$8,415,000. Proceeds of the bonds are for wastewater treatment improvements and to fund the purchase of the Springs Hill Wastewater Treatment Plant.

*Certificates of Obligation, Series 2016-A*, were issued February 2017 in the amount of \$8,800,000 to fund various streets and drainage improvements.

**NOTE I -- LONG-TERM DEBT (Continue d)**

**Component Unit**

The component unit received funds from First Commercial Bank N.A. to partially finance the purchase of land held for future economic incentive and development. The original principal amount of \$863,128 carries interest at the rate of 2.54% for a 10-year fixed period, after which the interest rate will equal the Prime Rate less 1.00%. The loan calls for monthly payments of \$5,786.78 (including principal and interest) and is secured by the real estate. Long-term debt activity for the component unit is summarized as follows:

	Balance Outstanding 10/1/2016	Increases	Decreases	Balance Outstanding 9/30/2017
Notes Payable	\$ 851,344	\$ -	\$ (48,084)	\$ 803,260

Annual requirements to amortize the notes payables as of September 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 49,337	\$ 20,104	\$ 69,441
2019	50,623	18,819	69,442
2020	51,893	17,548	69,441
2021	53,294	16,147	69,441
2022	54,683	14,759	69,442
Thereafter	543,430	64,131	607,561
	<b>\$ 803,260</b>	<b>\$ 151,508</b>	<b>\$ 954,768</b>

**NOTE J -- EMPLOYEES' RETIREMENT SYSTEMS**

Texas Municipal Retirement System

**Plan Description**

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

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

**NOTE J -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)**

Texas Municipal Retirement System (Continued)

**Benefits Provided**

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

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

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

	Plan Year 2016	Plan Year 2015
Inactive employees or beneficiaries currently receiving benefits	221	213
Inactive employees entitled to but not yet receiving benefits	161	137
Active employees	363	348
	<u>745</u>	<u>698</u>

**Contributions**

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

For the year ending September 30, 2017, employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.25% and 16.04% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$3,862,340, and exceeded the required contributions by \$674,365.

**NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)**

Texas Municipal Retirement System (Continued)

**Net Pension Liability**

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

**Actuarial Assumptions**

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

Inflation	2.5% per year
Salary Increases	3.5% to 10.5%, including inflation
Investment Rate of Return*	6.75%

\* Presented net of pension plan investment expense, including inflation

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

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

**NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)**

Texas Municipal Retirement System (Continued)

**Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding the expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	<u>100.00%</u>	

**Discount Rate**

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

**NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)**

Texas Municipal Retirement System (Continued)

**Changes in the Net Pension Liability**

The below schedule presents the changes in the Net Pension Liability as of December 31, 2016:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015:	\$ 94,243,215	\$ 61,526,090	\$ 38,037,194
Changes for the year:			
Service Cost	3,288,440	-	3,288,440
Interest	6,345,379	-	6,345,379
Change of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	124,086	-	124,086
Changes of Assumptions	-	-	-
Contributions - Employer	-	3,457,964	(3,457,964)
Contributions - Employee	-	1,315,376	(1,315,376)
Net Investment Income	-	4,157,561	(4,157,561)
Benefit Payments, Including Refunds of Employee Contributions	(3,763,653)	(3,763,653)	-
Administrative Expense	-	(46,960)	46,960
Other Changes	-	(2,530)	2,530
Net Changes	5,994,252	5,117,758	876,494
Balance at December 31, 2016:	\$ 100,237,467	\$ 66,643,848	\$ 33,593,619

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

	Discount Rate
	6.75%
Net Pension Liability (Asset)	\$ 33,593,619
	7.75%
	\$ 21,485,456

**Pension Plan Fiduciary Net Position**

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

**NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)**

Texas Municipal Retirement System (Continued)

**Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended September 30, 2017, the City recognized pension expense of \$5,327,761. Also as of September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ 111,703	\$ -
Changes in Actuarial Assumptions	161,228	-
Differences between Projected and Actual Investment Earnings	2,809,614	-
Contributions subsequent to the Measurement Date	3,053,778	-
	<u>\$ 6,136,323</u>	<u>\$ -</u>

Deferred outflows of resources in the amount of \$3,053,778 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Plan Year ended December 31,	
2017	\$ 1,112,839
2018	1,079,814
2019	877,508
2020	12,384
	<u>\$ 3,082,545</u>

**NOTE K -- POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

Retiree Health Benefits

**Plan Description**

In addition to the pension benefits described in Note J, the City administers a single-employer defined benefit healthcare plan for retirees (the Plan), established under legal authority of the City Charter. The City is the only employer participating and contributing to the Plan. The Plan does not issue a publicly available financial report.

**NOTE K -- POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

Retiree Health Benefits (Continued)

**Plan Description (Continued)**

The Plan provides healthcare insurance for eligible retirees (employees hired prior to January 1, 2008, and retiree eligible for service retirement from Texas Municipal Retirement System with a retirement date of December 31, 2002 or later) and their dependents. This benefit is based on years of service with the City as follows:

Minimum Years Continuous Service	Minimum Age	Minimum Premium Paid by City
15	57	0%
20	57	50%
25	57	100%

Eligible retirees will continue until the employee becomes Medicare eligible, at which time the employee will have the option to obtain a Medicare supplement or continue on the City's retiree plan at their own expense. Employees hired on or after January 1, 2008 will not receive a City contribution and will be responsible for payment of the actuarially established premium for retiree and dependent coverage.

Retiree premiums are the same as the premiums for active employees. For eligible employees retiring after December 31, 2010, the City will establish premium rates using actuarial methods to determine the appropriate rates by attained age. The City's contribution for a retiree's premium will not exceed the City's standard contribution toward an active employee's premium.

Plan members consist of the following at September 30, 2017:

Retirees and beneficiaries receiving benefits	14
Active Plan Members	<u>54</u>
Total	<u>68</u>

**Annual OPEB Cost and Net OPEB Obligation (Asset)**

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The City has elected to calculate the ARC and related information using the unit credit method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation of the Plan:

**NOTE K -- POST EMPLOYMENT BENEFITS OTHER THEN PENSIONS (CONTINUED)**

Retiree Health Benefits (Continued)

**Annual OPEB Cost and Net OPEB Obligation (Asset) (Continued)**

Annual Required Contribution (ARC)	\$ 181,898
Interest on Net OPEB Obligation	11,583
Adjustment to Annual Required Contribution	(15,759)
Annual OPEB Cost (Expense)	<u>177,722</u>
Contributions Made	-
Increase in Net OPEB Obligation (Asset)	<u>177,722</u>
Net OPEB Obligation (Asset) - Beginning of Year	330,937
Net OPEB Obligation (Asset) - End of Year	<u>\$ 508,659</u>

The total net OPEB obligation was \$371,320 for governmental activities and \$137,339 for business-type activities. The City's annual OPEB cost, contributions and unfunded liability for the past three years are as follows:

Fiscal Year	Annual OPEB Cost		Net OPEB Obligation	
	Cost	Percentage	Cost	Obligation
2017	\$ 177,722	0.0%	\$ 508,659	
2016	96,258	16.5%	330,938	
2015	105,581	16.3%	250,536	

**Funded Status and Funding Progress**

As of January 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,493,556. The covered payroll (annual payroll of active employees covered by the Plan) was about \$3,766,855, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 39.6%.

The projected benefit payments for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**NOTE K -- POST EMPLOYMENT BENEFITS (Continued)**

Retiree Health Benefits (Continued)

**Actuarial Methods and Assumptions**

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

In the January 1, 2016 actuarial valuation, the projected unit credit using full accrual at full eligibility age actuarial method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5.0%. The Plan's unfunded actuarial accrued liability is being amortized over 22 years utilizing the unit credit method. Demographic and other assumptions include mortality rates by age and gender, and termination rates by age and years of service. No provision was provided for inflation or for salary increases, as they do not play any role in the calculation of the liability. Additionally, post-retirement benefit increases were not included in the calculations.

Supplemental Death Benefits Plan

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

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

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

The City's contributions to the TMRS SDBF for the years ended September 2017, 2016, and 2015 were \$36,210; \$36,611; and \$32,552, respectively, which equaled the required contributions each year.



**NOTE L -- INTERFUND TRANSFERS**

Interfund transfers during the year ended September 30, 2017, were as follows:

Receiving Fund/Activity	Transferring Fund/Activity	Amount
General Fund	Nonmajor Governmental Fund	\$ 95,000
Debt Service	General Fund	565,000
Nonmajor Special Revenue	General Fund	218,488
Nonmajor Capital Projects	General Fund	2,259,585
Nonmajor Capital Projects	Nonmajor Special Revenue	150,000
Nonmajor Capital Projects	Utility Fund	89,413
Utility Fund	Nonmajor Capital Projects	16,590
Internal Service Fund	Utility Fund	8,900
Total Transfers		\$ 3,402,976

The City has entered into construction and engineering contracts for the improvement of various streets and utility systems, as well as park improvements. Estimated future commitments associated with these contracts as of September 30, 2017 are as follows:

	Total Commitments	Incurred Thru September 2017	Estimated Future Commitments
<b>Primary Government</b>			
<i>General Government</i>			
Bldgs, Streets & Drainage	\$ 15,293,427	\$ 10,393,173	\$ 4,900,254
Professional Services	1,601,790	1,328,143	273,647
	16,895,217	11,721,316	5,173,901
<i>Utility System</i>			
Utility System Improvements	19,125,668	15,729,810	3,395,858
Professional Services (Engineering)	3,608,760	2,234,177	1,374,583
	22,734,428	17,963,987	4,770,441
Total Primary Government Commitments	\$ 39,629,645	\$ 29,685,303	\$ 9,944,342

Economic Development Agreements

*WDW Development, LP Agreement*

The City entered into a Chapter 380 Agreement with WBW Land Investments, LP (WBW) which provides that the City shall reimburse WBW for certain public infrastructure improvements out of 50% of the increased tax received from home sales in the residential development project known as the Meadows at Nolte Farms over a period of ten years, beginning one year immediately after the date of initial completion, at a cost not to exceed \$500,000. The City estimates the increase in assessed value on the project over the base year to be \$15,000,000. Reimbursements to WBW are to begin March 2017 and are estimated to be \$24,000 annually. Reimbursement for the year ended September 30, 2017 was \$22,654.

Power Purchase Agreements

On December 17, 2015, the City entered into a fifteen (15) year agreement with the City of Garland to purchase energy produced by a solar-power facility, along with associated Environmental Attributes. The terms of the agreement began on the Commercial Operation Date (March 17, 2017) and ends on the day preceding the 15<sup>th</sup> anniversary of the agreement. In addition, the City entered into a separate twenty (20) year agreement with the City of Garland to purchase energy produced by a wind energy facility, along with associated Environmental Attributes. The terms of the agreement began on the Commercial Operation Date (November 13, 2016) and ends on the day preceding the 20<sup>th</sup> anniversary of the agreement. Both agreements carry performance guarantees for all parties, as well as mutual security provisions.

**NOTE M -- COMMITMENTS AND CONTINGENCIES**

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

Grants

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

CITY OF SEGUIN, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

**NOTE M -- COMMITMENTS AND CONTINGENCIES (Continued)**

Commitments under Noncapitalized Leases

Commitments under noncapitalized (operating) leases for copiers provide for future rental payments as of September 30, 2017 as follows:

Year Ending September 30,	Rentals
2018	\$ 34,508
2019	30,662
2020	25,664
2021	15,491
2022	5,403
Total	\$ 111,728

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year. Therefore, there were no outstanding encumbrances as of September 30, 2017.

Guadalupe Regional Medical Center

The City of Seguin is contingently liable for 50% of operating deficits produced by Guadalupe Regional Medical Center (GRMC), if any, with Guadalupe County contingently responsible for the remainder. As of September 30, 2016, long-term debt of GRMC consisted of Revenue Bonds in the amount of \$11,544,000. The bonds are secured by revenues of the Medical Center, mortgage insurance issued by FHA and funds held in trust.

CITY OF SEGUIN, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

**NOTE M -- COMMITMENTS AND CONTINGENCIES (Continued)**

Guadalupe Regional Medical Center (Continued)

Following is a summary of financial data as reported in the Guadalupe Regional Medical Center's most recent audited financial statements for the year ended September 30, 2016:

Assets:	
Current Assets	\$ 74,140,584
Other Assets	20,476,071
Capital Assets (Net)	97,068,522
Deferred Outflows of Resources	7,397,272
Total Assets	199,082,449
Liabilities & Net Assets:	
Current Liabilities	29,048,690
Other Liabilities	124,768,403
Total Liabilities	153,817,093
Deferred Inflows of Resources	1,111,232
Net Position	\$ 44,154,124
Operating Revenues:	
Net Revenues from Patient Services	\$ 146,703,264
Other Operating Revenues	2,700,341
Total Operating Revenues	149,403,605
Operating Expenses:	
Total Net Operating Income	144,309,429
Nonoperating Revenues and (Expenses)	5,094,176
Increase (Decrease) in Net Position	(7,130,786)
	\$ (2,036,610)

Schertz/Seguin Local Government Corporation

The City of Seguin is jointly liable, together with the City of Schertz, for operating deficits and long-term debt of the Schertz/Seguin Local Government Corporation (See Note A1). Following is a summary of financial data as reported in the Corporation's most recent audited financial statements dated September 30, 2016:

Assets:	
Current Assets	\$ 14,027,427
Restricted Cash and Cash Equivalents	6,859,879
Property, Plant & Equipment	95,187,724
Other Assets & Deferred Charges	2,546,875
Total Assets & Net Position:	118,621,905
Liabilities & Net Position:	
Current Liabilities	4,858,647
Revenue Bonds (Less Current Maturities and Unamortized Discounts)	100,976,449
Total Liabilities	105,835,096
Net Position:	(2,288,897)
Net Investment in Capital Assets	5,364,082
Restricted	9,820,433
Unrestricted	\$ 12,895,618
Total Net Position	

**NOTE M -- COMMITMENTS AND CONTINGENCIES (Continued)**

Schertz/Seguin Local Government Corporation (Continued)

The Corporation had revenue bonds outstanding in the amount of \$101,245,000 (as of September 30, 2016) to provide funds to build, improve, extend, enlarge and repair the Corporation's utility system, fund a reserve, and pay the costs of bond issuance. The bond resolution pledges intergovernmental contract revenues from the cities of Schertz and Seguin (the participating governments) to bond holders. Under the intergovernmental water supply contract, the participating governments are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service from the operation of their respective utility systems.

**NOTE N – PLEDGED REVENUE**

The Seguin Economic Development Corporation (SEDC) entered into an interlocal cooperative agreement with the City to transfer lawfully available surplus sales and use tax collected on behalf of SEDC to fund a portion of the debt service requirements of the 2011 *Combination Tax and Limited Pledge Revenue Certificates*. SEDC has pledged to transfer, on an annual basis, debt service requirements up to a total cumulative principal amount of \$880,000. Remaining commitment on the agreement as of September 30, 2017 is \$139,050.

In addition, SEDC entered into an agreement, along with the City, to fund certain improvements to the IH-10 frontage road in an amount not to exceed \$1,250,000. SEDC's portion of the commitment will be funded by a pledge of future sales tax revenue to reimburse the City ½ of the debt service requirements of bonded debt to fund the improvements. The remaining commitment on the agreement as of September 30, 2017 is \$615,775 over a three-year period.

Total contributions to the City in support of debt were \$344,375 for the year ended September 30, 2017. Annual requirements to satisfy the commitment are estimated to be 15% to 28% of the underlying revenue source (sales tax) and are as follows:

	Pledged Revenue
2018	\$ 344,175
2019	203,650
2020	207,000
Total Pledged	<u>\$ 754,825</u>

**NOTE O -- RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts. Annual contributions for the year ended September 30, 2017 were \$349,836 for property and casualty and \$186,597 for workers' compensation coverage.

**NOTE P – TAX ABATEMENT DISCLOSURES**

The City of Seguin negotiates property tax abatement agreements on a cases-by-case basis. The agreements freeze property tax revenues received from the paying entity at current levels and deprives the City of a percentage of future increases in ad valorem property tax revenues that otherwise would have resulted from increases in assessed valuation in such areas until the tax abatement period terminates. The Texas Property Redevelopment and Tax Abatement Act, Chapter 312 of the Texas Tax Code authorizes taxing jurisdictions to provide property tax abatement for a limited period of time as inducement for the development or redevelopment of property.

The City of Seguin Tax Abatement Guidelines (the "Guidelines"), adopted and effective on January 1, 2017, allow abatements to be granted only for the additional value of real or personal property improvements. No abatement will be approved that exceeds 100% of the new appraised value of capital improvements and/or personal property, or that will reduce current ad valorem revenue, and will be effective for no more than ten years. In the event that a facility that has been granted a tax abatement discontinues producing goods or services, fails to commence or complete the required capital investment, or fails to comply with any other provisions of the tax abatement agreement, the abatement agreement may be terminated by the City and all taxes previously abated will be recaptured and paid within 60 days of the termination. The Guidelines also include three abatement schedules that identify maximum allowable percentages based on the amount of real and personal property investment. These schedules serve as a guide for staff in determining a recommended abatement for a specific project.

As of September 30, 2017, the City has tax abatement agreements with seven entities. The gross amount of property tax abated during 2017 was \$2,792,877.

Caterpillar, Inc.: Tax abatement is for a period of ten years beginning January 1, 2010 for the construction and operation of a diesel engine manufacturing facility with an estimated value of \$161,000,000.

ET Seguin Dist. LLC: Tax abatement agreement for a period of five years beginning January 1, 2013 for the construction of a new manufacturing facility valued at an estimated cost of \$11,500,000.

Tennic Automotive of North America, Inc.: Tax abatement agreement for a ten year period beginning January 1, 2009 for the purchase and installation of specific personal property representing an investment in excess of \$15,000,000.

Continental Automotive Systems, Inc.: Tax abatement agreement for a period of five years beginning January 1, 2013 for the expansion of real and personal property at Continental's existing facility with an estimated value of \$113,000,000.

Tractor Supply Co. of Texas, LP: Tax abatement agreement for a period of five years beginning January 1, 2016 for the construction and operation of a distribution facility with an estimated value of \$8,000,000.

Cerealto Seguin, LLC: Tax abatement agreement for a period of five years beginning January 1, 2018 for the construction and operation of a food manufacturing facility with an estimated value of \$58,000,000.

CITY OF SEGUIN, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

**NOTE P – TAX ABATEMENT DISCLOSURES (Continued)**

*Six Forks International, LLC.* Tax abatement agreement for a period of ten years beginning January 1, 2016 for the restoration of property located at 217 S. River Street, including building a restaurant and bar with an estimated value of \$1,400,000.

**NOTE Q – SUBSEQUENT EVENTS**

The City approved issuance of *Tax Notes, Series 2017*, in the amount of \$775,000 for purchasing and equipping a fire truck and public works equipment. The notes are to be repaid over seven years at 1.785% interest. The City also approved issuance of *Tax Notes, Series 2018*, in the amount of \$649,000 to be repaid over four years at 2.25% interest. The Tax Notes are to purchase golf carts and equipment.

The City approved an Advance Funding Agreement with TxDOT for Rudeloff Roadway Expansion Project with a total project cost of \$8,501,910 and the City contributing a total of \$1,914,996 of the total cost. The Agreement also carries certain performance requirements by the city.

**REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of Changes – Defined Benefit Plan – Net Pension Liability and Related Ratios
- Schedule of City Contributions – Defined Benefit Plan
- Schedule of Funding Progress – Other Postemployment Benefits

CITY OF SEGUIN, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Budgeted Amounts		2017		Variance With Final Budget - Positive (Negative)	2016 Actual
	Original	Final	Actual	Actual		
<b>REVENUES</b>						
Taxes	\$ 12,596,818	\$ 12,596,818	\$ 12,678,017	\$ 12,182,731	\$ 81,199	\$ 12,182,731
Licenses and Permits	668,000	668,000	941,986	723,820	273,986	723,820
Intergovernmental	760,577	915,840	1,396,474	862,132	480,634	862,132
Charges for Services	5,551,496	5,551,496	5,711,530	5,696,651	160,034	5,696,651
Fines and Forfeits	1,721,850	1,735,850	1,707,497	1,497,809	(28,353)	1,497,809
Interest	31,955	68,061	144,635	64,240	76,574	64,240
Miscellaneous	742,609	756,609	819,081	762,398	62,472	762,398
<b>Total Revenues</b>	<b>22,073,305</b>	<b>22,292,674</b>	<b>23,399,220</b>	<b>21,789,781</b>	<b>1,106,536</b>	<b>21,789,781</b>
<b>EXPENDITURES</b>						
<b>GENERAL GOVERNMENT:</b>						
<i>Administration:</i>						
Personnel Services	56,844	56,844	55,532	56,900	1,312	56,900
Contracted Services	600	600	600	623	-	623
Supplies	900	900	559	347	341	347
Other Services and Charges	22,000	22,000	8,769	8,414	13,231	8,414
<b>Total Administration</b>	<b>80,344</b>	<b>80,344</b>	<b>65,460</b>	<b>66,284</b>	<b>14,884</b>	<b>66,284</b>
<i>Financial Administration:</i>						
Personnel Services	340,165	340,165	338,340	307,862	1,825	307,862
Contracted Services	154,851	164,176	161,241	139,057	2,935	139,057
Supplies	10,500	36,000	28,756	13,148	7,244	13,148
Other Services and Charges	7,765	7,765	6,189	7,729	1,576	7,729
<b>Total Financial Administration</b>	<b>513,281</b>	<b>548,106</b>	<b>534,526</b>	<b>467,796</b>	<b>13,580</b>	<b>467,796</b>
<i>City Manager:</i>						
Personnel Services	228,005	228,005	227,638	263,102	367	263,102
Contracted Services	2,050	2,050	1,743	1,757	307	1,757
Supplies	3,700	3,700	2,511	2,389	1,189	2,389
Other Services and Charges	16,699	16,699	11,639	10,469	5,060	10,469
<b>Total City Manager</b>	<b>250,454</b>	<b>250,454</b>	<b>243,531</b>	<b>277,717</b>	<b>6,923</b>	<b>277,717</b>
<i>Human Resources:</i>						
Personnel Services	275,827	275,833	275,662	256,880	171	256,880
Contracted Services	45,450	50,819	50,819	42,889	-	42,889
Supplies	5,100	5,100	4,106	5,417	994	5,417
Other Services and Charges	51,400	46,025	31,294	29,547	14,731	29,547
<b>Total Human Resources</b>	<b>377,777</b>	<b>377,777</b>	<b>361,881</b>	<b>334,733</b>	<b>15,896</b>	<b>334,733</b>

Continued

CITY OF SEGUIN, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
 BUDGET AND ACTUAL (CONTINUED)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Budgeted Amounts		2017		Variance With Final Budget - Positive (Negative)	2016 Actual
	Original	Final	Actual	Actual		
<b>General Government (Cont.):</b>						
<i>Planning and Zoning Office:</i>						
Personnel Services	\$ 945,814	\$ 921,424	\$ 907,221	\$ 809,267	\$ 14,203	\$ 809,267
Contracted Services	107,695	132,085	130,579	91,011	1,506	91,011
Supplies	24,775	24,775	20,081	21,985	4,694	21,985
Other Services and Charges	24,300	24,300	17,293	16,639	7,007	16,639
<b>Total Planning and Zoning Office</b>	<b>1,102,584</b>	<b>1,102,584</b>	<b>1,075,174</b>	<b>938,902</b>	<b>27,410</b>	<b>938,902</b>
<i>City Secretary's Office:</i>						
Personnel Services	51,112	51,112	49,128	62,011	1,984	62,011
Contracted Services	5,100	5,100	4,570	4,736	530	4,736
Supplies	2,300	3,269	3,170	1,692	99	1,692
Other Services and Charges	34,600	33,631	26,590	11,244	7,041	11,244
<b>Total City Secretary's Office</b>	<b>93,112</b>	<b>93,112</b>	<b>83,458</b>	<b>79,683</b>	<b>9,654</b>	<b>79,683</b>
<i>Information Technology</i>						
Personnel Services	229,456	229,271	214,591	192,483	14,680	192,483
Contracted Services	204,238	202,221	201,826	151,017	395	151,017
Supplies	1,075	1,444	1,410	704	34	704
Other Services and Charges	3,025	4,858	4,858	2,804	-	2,804
<b>Total Information Technology</b>	<b>437,794</b>	<b>437,794</b>	<b>422,685</b>	<b>347,008</b>	<b>15,109</b>	<b>347,008</b>
<i>City Attorney:</i>						
Personnel Services	91,542	92,164	90,347	84,846	1,817	84,846
Contracted Services	5,450	5,758	5,758	4,362	-	4,362
Supplies	225	225	72	136	153	136
Other Services and Charges	2,400	2,400	1,919	1,806	481	1,806
<b>Total City Attorney:</b>	<b>99,617</b>	<b>100,547</b>	<b>98,096</b>	<b>91,150</b>	<b>2,451</b>	<b>91,150</b>
<i>Facilities and Grounds:</i>						
Personnel Services	157,409	157,409	112,087	120,942	45,322	120,942
Contracted Services	76,560	76,560	67,584	78,689	8,976	78,689
Supplies	8,700	8,700	5,518	4,013	3,182	4,013
Other Services and Charges	2,200	2,200	934	625	1,266	625
<b>Total Facilities and Grounds</b>	<b>244,869</b>	<b>244,869</b>	<b>186,123</b>	<b>204,269</b>	<b>58,746</b>	<b>204,269</b>
<b>Total General Government</b>	<b>\$ 3,199,832</b>	<b>\$ 3,235,587</b>	<b>\$ 3,070,934</b>	<b>\$ 2,807,542</b>	<b>\$ 164,653</b>	<b>\$ 2,807,542</b>

Continued

CITY OF SEGUIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(With Comparative Actual Amounts for 2016)

	Budgeted Amounts		2017 Actual	Variance With Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
<b>Public Safety:</b>					
<i>Police:</i>					
Personnel Services	\$ 6,823,860	\$ 6,840,802	\$ 6,710,497	\$ 130,305	\$ 6,318,237
Contracted Services	138,600	134,350	129,387	4,963	121,187
Supplies	104,900	105,400	103,213	2,187	92,531
Other Services and Charges	224,500	230,700	200,397	30,303	175,107
<b>Total Police</b>	<b>7,291,860</b>	<b>7,311,252</b>	<b>7,143,494</b>	<b>167,758</b>	<b>6,707,062</b>
<i>Fire/EMS:</i>					
Personnel Services	5,179,663	5,169,494	5,034,488	135,006	4,732,953
Contracted Services	261,300	287,469	271,118	16,351	229,987
Supplies	178,300	176,427	163,212	13,215	155,760
Other Services and Charges	126,850	120,223	89,842	30,381	71,273
<b>Total Fire/EMS</b>	<b>5,746,113</b>	<b>5,753,613</b>	<b>5,558,660</b>	<b>194,953</b>	<b>5,189,973</b>
<i>Municipal Court:</i>					
Personnel Services	285,969	286,275	285,733	542	268,372
Contracted Services	63,930	63,624	60,134	3,490	60,385
Supplies	9,500	9,500	8,967	533	10,437
Other Services and Charges	6,350	6,350	5,435	915	3,636
<b>Total Municipal Court</b>	<b>365,749</b>	<b>365,749</b>	<b>360,269</b>	<b>5,480</b>	<b>342,830</b>
<i>Animal Control:</i>					
Personnel Services	398,689	398,689	352,623	46,066	293,724
Contracted Services	59,350	59,350	29,340	30,010	10,381
Supplies	51,800	51,800	46,295	5,505	45,014
Other Services and Charges	10,600	10,600	7,247	3,353	6,439
<b>Total Animal Control</b>	<b>520,439</b>	<b>520,439</b>	<b>435,505</b>	<b>84,934</b>	<b>355,558</b>
<b>Total Public Safety</b>	<b>13,924,161</b>	<b>13,951,053</b>	<b>13,497,928</b>	<b>453,125</b>	<b>12,595,423</b>
<b>Public Service:</b>					
<i>Public Works:</i>					
Personnel Services	1,880,688	1,860,000	1,741,976	118,024	1,592,071
Contracted Services	1,914,219	1,926,907	1,893,968	32,939	1,777,244
Supplies	66,400	56,400	47,817	8,583	49,851
Other Services and Charges	97,850	115,850	100,200	15,650	73,714
<b>Total Public Works</b>	<b>3,959,157</b>	<b>3,959,157</b>	<b>3,783,961</b>	<b>175,196</b>	<b>3,492,880</b>

Continued

CITY OF SEGUIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(With Comparative Actual Amounts for 2016)

	Budgeted Amounts		2017 Actual	Variance With Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
<b>Public Service: (Cont.)</b>					
<i>Vehicle Maintenance:</i>					
Personnel Services	\$ 227,795	\$ 218,591	\$ 217,570	\$ 1,021	\$ 209,671
Contracted Services	198,916	210,262	209,794	468	128,864
Supplies	13,700	13,212	13,212	-	13,376
Other Services and Charges	6,300	4,646	3,984	662	2,510
<b>Total Vehicle Maintenance</b>	<b>446,711</b>	<b>446,711</b>	<b>444,560</b>	<b>2,151</b>	<b>354,421</b>
<i>Library:</i>					
Personnel Services	868,475	913,010	912,334	676	646,568
Contracted Services	114,710	118,821	105,235	13,586	90,930
Supplies	103,700	178,374	174,342	4,032	122,990
Other Services and Charges	4,550	9,589	9,429	160	6,053
<b>Total Library</b>	<b>1,091,435</b>	<b>1,219,794</b>	<b>1,201,340</b>	<b>18,454</b>	<b>866,541</b>
<i>Parks and Recreation:</i>					
Personnel Services	1,402,743	1,397,465	1,275,458	122,007	1,194,463
Contracted Services	234,240	238,337	211,325	27,012	204,410
Supplies	105,900	99,900	81,025	18,875	91,448
Other Services and Charges	23,500	38,681	34,233	4,448	26,465
<b>Total Parks and Recreation</b>	<b>1,766,383</b>	<b>1,774,383</b>	<b>1,602,041</b>	<b>172,342</b>	<b>1,516,786</b>
<i>Golf Course:</i>					
Personnel Services	-	-	-	-	523,074
Contracted Services	-	-	-	-	49,246
Supplies	-	-	-	-	46,904
Other Services and Charges	-	-	-	-	53,339
<b>Total Golf Course</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>672,563</b>
<i>Downtown &amp; Main St. Programs:</i>					
Personnel Services	117,946	118,346	118,128	218	142,806
Contracted Services	8,100	5,950	3,507	2,443	4,879
Supplies	11,600	9,500	9,412	88	1,186
Other Services and Charges	19,470	31,620	29,047	2,573	22,965
<b>Total Downtown &amp; Main St. Programs</b>	<b>157,116</b>	<b>165,416</b>	<b>160,094</b>	<b>5,322</b>	<b>171,836</b>
<b>Total Public Service</b>	<b>7,420,802</b>	<b>7,565,461</b>	<b>7,191,996</b>	<b>373,465</b>	<b>7,075,027</b>

Continued

CITY OF SEGUIN, TEXAS  
 NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
 BUDGET AND ACTUAL  
 SEPTEMBER 30, 2017

**Budgetary Information** – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are funds which have legally adopted annual budgets: General Fund, Debt Service Fund, Occupancy Tax (Special Revenue) Fund, Coliseum (Special Revenue) Fund, Aquatic Center (Special Revenue) Fund, Golf Course (Special Revenue) Fund, Convention & Visitor's Bureau (Special Revenue Fund), Sebastopol House (Special Revenue) Fund, Police Donations (Special Revenue) Fund, PEG Capital Fees (Special Revenue) Fund, Library Development (Special Revenue) Fund, and Seguin Events Complex (Special Revenue) Fund. Project – length financial plans are adopted for the Capital Projects Funds.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.

CITY OF SEGUIN, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
 BUDGET AND ACTUAL (CONTINUED)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Budgeted Amounts		2017 Actual	Variance With Final Budget - Positive (Negative)	2016 Actual
	Original	Final			
<b>Nondepartmental:</b>					
Contracted Services	\$ 189,135	\$ 216,765	\$ 165,391	\$ 51,374	\$ 143,146
Building and Auto Insurance	135,000	135,000	125,262	9,738	140,880
Unemployment Insurance	10,000	10,000	2,950	7,050	17,341
Contributions - Civic				-	
Organizations	1,665,931	1,665,931	1,665,931	-	1,602,703
Other Services and Charges	69,300	429,978	427,140	2,838	66,494
<b>Total Nondepartmental</b>	<b>2,069,366</b>	<b>2,457,674</b>	<b>2,386,674</b>	<b>71,000</b>	<b>1,970,564</b>
<b>Capital Outlay</b>	<b>-</b>	<b>1,000,000</b>	<b>929,461</b>	<b>70,539</b>	<b>158,620</b>
<b>Indirect Cost Recovery - Utility Fund</b>	<b>(4,400,000)</b>	<b>(4,400,000)</b>	<b>(4,641,289)</b>	<b>241,289</b>	<b>(4,352,992)</b>
<b>Total Expenditures</b>	<b>22,214,161</b>	<b>23,809,775</b>	<b>22,435,704</b>	<b>1,374,071</b>	<b>20,254,184</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(140,856)</b>	<b>(1,517,101)</b>	<b>963,516</b>	<b>2,480,617</b>	<b>1,535,597</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	95,000	95,000	95,000	-	95,801
Transfers (Out)	(1,760,288)	(3,043,073)	(3,043,073)	-	(4,463,666)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,665,288)</b>	<b>(2,948,073)</b>	<b>(2,948,073)</b>	<b>-</b>	<b>(4,367,865)</b>
<b>Net Change in Fund Balance</b>	<b>(1,806,144)</b>	<b>(4,465,174)</b>	<b>(1,984,557)</b>	<b>2,480,617</b>	<b>(2,832,268)</b>
<b>Fund Balance at Beginning of Year</b>	<b>15,158,011</b>	<b>15,158,011</b>	<b>15,158,011</b>	<b>-</b>	<b>17,990,279</b>
<b>Fund Balance at End of Year</b>	<b>\$ 13,351,867</b>	<b>\$ 10,692,837</b>	<b>\$ 13,173,454</b>	<b>\$ 2,480,617</b>	<b>\$ 15,158,011</b>

CITY OF SEGUIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CITY CONTRIBUTIONS  
LAST THREE FISCAL YEARS

	2015	2016	2017
<b>Schedule of Contributions:</b>			
Actuarially Determined Contribution Contributions in Relation to the Actuarially Determined Contribution	\$ 1,882,050	\$ 2,732,499	\$ 3,151,764
Contribution Deficiency (Excess)	\$ 2,545,271	\$ 3,451,731	\$ 3,826,130
	\$ (663,221)	\$ (719,232)	\$ (674,366)
Covered Employee Payroll	\$ 17,132,808	\$ 18,313,373	\$ 19,869,160
Contribution as a Percentage of Covered Employee Payroll	14.86%	18.85%	19.26%

**Valuation Date**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year Smoothed Market, 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50 to 10.5%
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with blue Collar Adjustment; male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

*GASB 68 Pension Information is being applied prospectively. 10-year historical trend information will be developed beginning with 2015*

CITY OF SEGUIN, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES - NET PENSION LIABILITY AND RELATED RATIOS  
LAST THREE PLAN YEARS

	2014	2015	2016
Total Pension Liability			
Service Cost	\$ 2,513,154	\$ 3,015,806	\$ 3,288,440
Interest (on the Total Pension Liability)	5,806,091	6,178,108	6,345,379
Changes of Benefit Terms	-	-	-
Difference between Experienced and Actual Experience	337,633	(179,540)	124,086
Change of Assumptions	-	289,698	-
Benefit Payments, Including Refunds of Employee Contributions	(3,564,077)	(3,623,283)	(3,763,653)
Net Change in Total Pension Liability	5,092,801	5,680,789	5,994,252
Total Pension Liability - Beginning	83,469,625	88,562,426	94,243,215
Total Pension Liability - Ending	\$ 88,562,426	\$ 94,243,215	\$ 100,237,467

**Plan Fiduciary Net Position**

Contributions - Employer	\$ 1,992,250	\$ 2,722,654	\$ 3,457,964
Contributions - Employee	1,132,877	1,228,792	1,315,376
Net Investment Income	3,335,330	90,246	4,157,561
Benefit Payments, Including Refunds of Employee Contributions	(3,564,077)	(3,623,283)	(3,763,653)
Administrative Expense	(34,824)	(54,973)	(46,960)
Other	(2,863)	(2,716)	(2,530)
Net Change in Plan Fiduciary Net Position	2,838,693	360,720	5,117,758
Plan Fiduciary Net Position - Beginning	58,306,677	61,165,370	61,526,090
Net Pension Liability - Ending	\$ 61,165,370	\$ 61,526,090	\$ 66,643,848
Net Pension Liability (Asset) - Ending	\$ 27,397,056	\$ 32,717,125	\$ 33,593,619
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	69.06%	65.28%	66.49%
Covered Employee Payroll	\$ 16,183,951	\$ 17,554,166	\$ 18,791,085
Net Pension Liability as a Percentage of Covered Employee Payroll	169.29%	186.38%	178.77%

*GASB 68 Pension Information is being applied prospectively. 10-year historical trend information will be developed beginning with 2015*



CITY OF SEGUIN, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 OTHER POSTEMPLOYMENT BENEFITS  
 RETIREE INSURANCE  
 SCHEDULE OF FUNDING PROGRESS  
 LAST THREE ACTUARIAL VALUATIONS

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll
4/30/2012	\$ -	\$ 1,405,548	\$ 1,405,548	0%	\$ 7,036,484	20.0%
4/30/2014	-	1,027,966	1,027,966	0%	7,086,680	14.5%
1/1/2016	-	1,493,356	1,493,356	0%	3,766,855	39.6%

SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedule include:

- Comparative Statements – General Fund
- Statement of Revenues, Expenditures & Changes in Fund Balance – Budget and Actual – Debt Service Fund
- Combining Statements – Nonmajor Governmental Funds
  - Combining Statements – Nonmajor Special Revenue Funds
  - Combining Statements – Nonmajor Capital Projects Funds
  - Budgetary Statements
- Comparative Statements – Enterprise (Utility) Fund
- Combining Statements – Internal Service (Insurance) Funds
- Combining Statements – Fiduciary (Private Purpose Trust) Funds
- Statement of Changes in Assets & Liabilities – Agency Fund

CITY OF SEGUIN, TEXAS  
COMPARATIVE BALANCE SHEETS  
GENERAL FUND  
SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 291,306	\$ 772,928
Investments	13,367,512	14,484,023
Receivables:		
Taxes	1,701,228	1,679,282
Accounts	759,016	1,111,981
Grants	445,449	30,497
Miscellaneous	182,937	86,686
Inventory of Supplies	22,167	23,962
Prepaid Items	98,671	83,421
<b>Total Assets</b>	<b>\$ 16,868,286</b>	<b>\$ 18,272,730</b>
<b>LIABILITIES</b>		
Accounts Payable	1,623,372	811,123
Accrued Expenditures	639,414	539,334
Due to Component Unit	190,351	197,686
Unearned Revenue	248,906	227,942
Due to Other Funds	494	-
Due to Others	10,539	42,536
<b>Total Liabilities</b>	<b>2,713,076</b>	<b>1,818,621</b>
<b>Deferred Inflows of Resources</b>		
Unavailable Revenue	981,756	1,296,098
<b>Total Deferred Inflows of Resources</b>	<b>981,756</b>	<b>1,296,098</b>
<b>Fund Balance:</b>		
Nonspendable	120,838	107,383
Restricted - Tree Mitigation Fees	7,905	5,300
Committed - Stabilization Arrangement	1,536,104	2,018,494
Assigned	3,440	52,312
Unassigned	11,505,167	12,974,522
<b>Total Fund Balance</b>	<b>13,173,454</b>	<b>15,158,011</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	<b>\$ 16,868,286</b>	<b>\$ 18,272,730</b>



**It's real.**

CITY OF SEGUIN, TEXAS  
 COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 GENERAL FUND  
 FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

REVENUES	2017	2016
Taxes	\$ 12,678,017	\$ 12,182,731
Licenses and Permits	941,986	723,820
Intergovernmental	1,396,474	862,132
Charges for Services	5,711,530	5,696,651
Fines and Forfeits	1,707,497	1,497,809
Interest	144,635	64,240
Miscellaneous	819,081	762,398
<b>Total Revenues</b>	<b>23,399,220</b>	<b>21,789,781</b>
<b>EXPENDITURES</b>		
<i>Current:</i>		
General Government	3,070,934	2,807,542
Public Safety	13,497,928	12,595,423
Public Service	7,191,996	7,075,027
Nondepartmental	2,386,674	1,970,564
Indirect Cost Allocation (Recovery)	(4,641,289)	(4,352,992)
Capital Outlay	929,461	158,620
<b>Total Expenditures</b>	<b>22,435,704</b>	<b>20,254,184</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>963,516</b>	<b>1,535,597</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	95,000	95,801
Transfers (Out)	(3,043,073)	(4,463,666)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,948,073)</b>	<b>(4,367,865)</b>
<b>Net Change in Fund Balance</b>	<b>(1,984,557)</b>	<b>(2,832,268)</b>
<b>Fund Balance at Beginning of Year</b>	<b>15,158,011</b>	<b>17,990,279</b>
<b>Fund Balance at End of Year</b>	<b>\$ 13,173,454</b>	<b>\$ 15,158,011</b>

CITY OF SEGUIN, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 DEBT SERVICE FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (with Comparative Actual Amounts for 2016)

REVENUES	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
Taxes	\$ 3,818,121	\$ 3,964,599	\$ 146,478	\$ 3,218,707
Intergovernmental	344,375	344,375	-	342,925
Interest	6,047	19,450	13,403	9,189
<b>Total Revenues</b>	<b>4,168,543</b>	<b>4,328,424</b>	<b>159,881</b>	<b>3,570,821</b>
<b>EXPENDITURES</b>				
<b>Debt Service:</b>				
Principal	2,553,742	2,553,742	-	2,453,230
Interest and Fiscal Charges	2,727,651	2,689,139	38,512	2,242,406
Bond Issue Costs	-	-	-	158,373
<b>Total Expenditures</b>	<b>5,281,393</b>	<b>5,242,881</b>	<b>38,512</b>	<b>4,854,009</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(1,112,850)</b>	<b>(914,457)</b>	<b>198,393</b>	<b>(1,283,188)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	565,000	565,000	-	640,000
Certificates Issued	297,850	260,227	(37,623)	9,370,000
Premiums on Issuance of Bonds	-	-	-	592,615
Payments to Refunding Agent	-	-	-	(9,804,242)
<b>Total Other Financing Sources (Uses)</b>	<b>862,850</b>	<b>825,227</b>	<b>(37,623)</b>	<b>798,373</b>
<b>Net Change in Fund Balance</b>	<b>(250,000)</b>	<b>(89,230)</b>	<b>160,770</b>	<b>(484,815)</b>
<b>FUND BALANCE, OCTOBER 1</b>	<b>982,371</b>	<b>982,371</b>	<b>-</b>	<b>1,467,186</b>
<b>FUND BALANCE, SEPTEMBER 30</b>	<b>\$ 732,371</b>	<b>\$ 893,141</b>	<b>\$ 160,770</b>	<b>\$ 982,371</b>

CITY OF SEGUIN, TEXAS  
COMBINING FINANCIAL STATEMENTS  
NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

**Occupancy Tax Fund** – To account for the Occupancy Tax revenues paid the City and restricted by State Law. The revenues provide for contributions to various civic organizations. In addition, certain occupancy tax proceeds are designated for specific uses and are reflected in separate special revenue funds.

**Coliseum Fund** – To account for occupancy tax and revenues earned by the coliseum that provide for the operations and maintenance of the coliseum.

**Aquatic Center Fund** – To account for the revenues earned by the Aquatic Center committed for the operations and maintenance of the Aquatic Center.

**Municipal Court Security** – To account for revenues from court fines restricted to improving municipal court security.

**Municipal Court Technology** – To account for revenues from court fines restricted to improving court technology.

**Forfeiture & Seizure Fund** – Account for revenues under federal, state and civil cases that allow confiscation of money and property. All forfeited proceeds are to be spent on law enforcement.

**Golf Course Fund** – To account for the operations of the golf course and related pro shop. Revenues are committed for enhancement of the golf course facilities.

**D.A.R.E. Fund** – Established in fiscal 1995 to account for donations received for the D.A.R.E. program.

**Juvenile Case Manager Fund** – To account for fees assessed and restricted to support a case manager for juvenile offenders.

**Convention & Visitors Bureau** – To account for occupancy tax revenues restricted for specific purposes by state law.

**CVB Building Fund** – Established to receive a portion of the Occupancy Tax Revenue to support a future building site for the Convention and Visitors Bureau.

**Sebastopol House** – To account for occupancy tax revenues restricted for specific purposes by state law. The Sebastopol House is a registered historic landmark.

**Police Department Donations** – To account for contributions restricted to the City Police Department.

**PPG Capital Fees** – To account for fees collected and remitted to the city with cable franchise fees to support government-access cable broadcasting.

**Library Development Fund** – To account for contributions restricted to library enhancement.

CITY OF SEGUIN, TEXAS  
COMBINING FINANCIAL STATEMENTS  
NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)

SPECIAL REVENUE FUNDS (continued)

**Seguin Events Complex** – To account for occupancy tax and charges for use of the Complex restricted to supporting the operations of the Complex

**Seguin Arts Commission** – To track donations received specific to enhancement of downtown Seguin

CAPITAL PROJECTS FUNDS

The Capital Projects funds are used to account for proceeds from bond issues and other resources specifically assigned for capital expenditures.

CITY OF SEGUIN, TEXAS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
SEPTEMBER 30, 2017

ASSETS	Combined Special Revenue	Combined Capital Projects	Total
Cash and Cash Equivalents	\$ 198,430	\$ 85,065	\$ 283,495
Investments	1,836,150	5,050,924	6,887,074
Receivables (net of allowances for uncollectibles):			
Taxes	198,274	-	198,274
Accounts	58,504	132,679	191,183
Prepaid Items	900	42,426	43,326
Restricted Assets:			
Cash and Cash Equivalents	-	36,603	36,603
Investments	-	2,120,172	2,120,172
<b>Total Assets</b>	<b>\$ 2,292,258</b>	<b>\$ 7,467,869</b>	<b>\$ 9,760,127</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<i>Liabilities:</i>			
Accounts Payable	\$ 67,130	\$ 529,134	\$ 596,264
Accrued Expenditures	15,248	-	15,248
Unearned Revenues	25,591	500	26,091
Due to Others	53,870	-	53,870
<b>Total Liabilities</b>	<b>161,839</b>	<b>529,634</b>	<b>691,473</b>
<i>Fund Balance:</i>			
Nonspendable:			
Prepays	900	42,426	43,326
Restricted			
Tourism & Economic Development	1,066,076	-	1,066,076
Public Safety	570,985	-	570,985
Public Service	278,273	-	278,273
Capital Projects	-	2,132,357	2,132,357
Committed	214,185	-	214,185
Assigned	-	4,763,452	4,763,452
<b>Total Fund Balance</b>	<b>2,130,419</b>	<b>6,938,235</b>	<b>9,068,654</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 2,292,258</b>	<b>\$ 7,467,869</b>	<b>\$ 9,760,127</b>

CITY OF SEGUIN, TEXAS  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
SEPTEMBER 30, 2017

REVENUES	Combined Special Revenue	Combined Capital Projects	Total
Taxes	\$ 849,391	\$ -	\$ 849,391
Licenses and Permits	-	120,350	120,350
Intergovernmental	52,470	186,656	239,126
Charges for Services	972,747	168,259	1,141,006
Fines and Forfeits	202,209	-	202,209
Interest	15,627	79,663	95,290
Miscellaneous	22,120	79,440	101,560
<b>Total Revenues</b>	<b>2,114,564</b>	<b>634,368</b>	<b>2,748,932</b>
<b>EXPENDITURES</b>			
Current:			
General Government	1,586,242	345,216	1,931,458
Nondepartmental	339,484	-	339,484
Capital Outlay	-	5,205,577	5,205,577
Debt Service:			
Principal	-	307,116	307,116
Interest & Fiscal Charges	-	16,310	16,310
<b>Total Expenditures</b>	<b>1,925,726</b>	<b>5,874,219</b>	<b>7,799,945</b>
<b>Excess (Deficiency) of Revenue Over (Under) Expenditures</b>	<b>188,838</b>	<b>(5,239,851)</b>	<b>(5,051,013)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	218,488	2,498,998	2,717,486
Transfers Out	(245,000)	(16,590)	(261,590)
Proceeds of Debt Financing	-	1,698,015	1,698,015
<b>Total Other Financing Sources (Uses)</b>	<b>(26,512)</b>	<b>4,180,423</b>	<b>4,153,911</b>
<b>Net Change in Fund Balances</b>	<b>162,326</b>	<b>(1,059,428)</b>	<b>(897,102)</b>
<b>FUND BALANCE, OCTOBER 1</b>	<b>1,968,093</b>	<b>7,997,663</b>	<b>9,965,756</b>
<b>FUND BALANCE, SEPTEMBER 30</b>	<b>\$ 2,130,419</b>	<b>\$ 6,938,235</b>	<b>\$ 9,068,654</b>

CITY OF SEGUIN, TEXAS  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
SEPTEMBER 30, 2017

	Occupancy	Coliseum	Acquatic	Municipal	Municipal	Forfeiture	Golf	DARE	Juvenile
	Tax	Fund	Center	Court	Court	& Seizure	Course	Program	Case
	Fund		Fund	Security	Technology	Fund	Fund	Fund	Manager
<b>ASSETS</b>									
Cash and Cash Equivalents	\$ 2,163	\$ 25,698	\$ 2,657	\$ 8,482		\$ 42,604	\$ 6,076	\$ 20,904	\$ 11,783
Investments	430,429	160,887	18,206	42,111		211,369	207,091	68,849	9,212
Receivables (net of allowances for uncollectibles):									
Accounts	-	11,783	-	-		34,727	3,989	-	-
Taxes	187,899	-	-	-		-	-	-	-
Prepaid Items	-	-	-	-	900	-	-	-	-
<b>Total Assets</b>	<b>\$ 620,491</b>	<b>\$ 198,368</b>	<b>\$ 20,863</b>	<b>\$ 50,593</b>	<b>\$ 70,580</b>	<b>\$ 288,700</b>	<b>\$ 217,156</b>	<b>\$ 89,753</b>	<b>\$ 20,995</b>
<b>LIABILITIES AND FUND BALANCE</b>									
<i>Liabilities:</i>									
Accounts Payable	\$ 13,306	\$ 8,340	\$ -	\$ -		\$ -	\$ 11,904	\$ -	\$ -
Accrued Expenditures	-	938	-	-		-	9,477	-	-
Due to Others	-	53,870	-	-		-	-	-	-
Unearned Revenue	-	-	-	-		-	2,453	-	-
<b>Total Liabilities</b>	<b>\$ 13,306</b>	<b>\$ 63,148</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,834</b>	<b>\$ -</b>	<b>\$ -</b>
<i>Fund Balance:</i>									
Nonspendable	-	-	-	-		-	-	-	-
Prepays	-	-	-	-	900	-	-	-	-
Restricted									
Promoting Tourism & Economic Development	607,185	135,220	-	-		-	-	-	-
Public Safety	-	-	-	50,593		288,700	-	89,753	20,995
Public Service	-	-	-	-		-	-	-	-
Committed	-	-	20,863	-		-	193,322	-	-
<b>Total Fund Balance</b>	<b>\$ 607,185</b>	<b>\$ 135,220</b>	<b>\$ 20,863</b>	<b>\$ 50,593</b>	<b>\$ 70,580</b>	<b>\$ 288,700</b>	<b>\$ 193,322</b>	<b>\$ 89,753</b>	<b>\$ 20,995</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 620,491</b>	<b>\$ 198,368</b>	<b>\$ 20,863</b>	<b>\$ 50,593</b>	<b>\$ 70,580</b>	<b>\$ 288,700</b>	<b>\$ 217,156</b>	<b>\$ 89,753</b>	<b>\$ 20,995</b>

CITY OF SEGUIN, TEXAS  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET (CONTINUED)  
SEPTEMBER 30, 2017

	Convention & Visitors Bureau Fund		CVB Building Fund		Sebastopol House		Police Department Donations		PEG Capital Fees		Library Development Fund		Seguin Events Complex		Seguin Arts Commission		Totals			
<b>ASSETS</b>																				
Cash and Cash Equivalents	\$	5,095	\$	11,198	\$	837	\$	641		\$	9,500	\$	181	\$	23,105	\$	15,184	\$	198,430	
Investments		275,167		46,959		12,545		58,614												1,836,150
Receivables (net of allowances for uncollectibles):																				
Accounts		-		-		-		-												
Taxes		-		-		-		-												
Prepaid Items		-		-		-		-												
<b>Total Assets</b>	\$	<u>280,262</u>	\$	<u>58,157</u>	\$	<u>13,382</u>	\$	<u>59,255</u>		\$	<u>72,858</u>	\$	<u>128,549</u>	\$	<u>87,112</u>	\$	<u>15,184</u>	\$	<u>2,292,258</u>	
<b>LIABILITIES AND FUND BALANCE</b>																				
<i>Liabilities:</i>																				
Accounts Payable	\$	22,480	\$	-	\$	1,125	\$	-		\$	2,960	\$	-	\$	6,951	\$	64	\$	67,130	
Accrued Expenditures		2,410		-		960		-							1,463				15,248	
Due to Others		-		-		-		-							-				53,870	
Unearned Revenue		-		-		1,155		7,991							13,992				25,591	
<b>Total Liabilities</b>		<u>24,890</u>		<u>-</u>		<u>3,240</u>		<u>7,991</u>			<u>2,960</u>		<u>-</u>		<u>22,406</u>		<u>64</u>		<u>161,839</u>	
<i>Fund Balance:</i>																				
Nonspendable		-		-		-		-												900
Prepays		-		-		-		-												
Restricted																				
Promoting Tourism & Economic Development		255,372		58,157		10,142		-												1,066,076
Public Safety		-		-		-		51,264												570,985
Public Service		-		-		-		-							64,706		15,120		278,273	
Committed		-		-		-		-												214,185
<b>Total Fund Balance</b>		<u>255,372</u>		<u>58,157</u>		<u>10,142</u>		<u>51,264</u>			<u>69,898</u>		<u>128,549</u>		<u>64,706</u>		<u>15,120</u>		<u>2,130,419</u>	
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$	<u>280,262</u>	\$	<u>58,157</u>	\$	<u>13,382</u>	\$	<u>59,255</u>		\$	<u>72,858</u>	\$	<u>128,549</u>	\$	<u>87,112</u>	\$	<u>15,184</u>	\$	<u>2,292,258</u>	

CITY OF SEGUIN, TEXAS  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

REVENUES	Occupancy Tax Fund	Coliseum Fund	Aquatic Center Fund	Municipal Court Security Fund	Municipal Court Technology	Forfeiture & Seizure Fund	Golf Course Fund	DARE Program Fund	Juvenile Case Manager
Taxes	\$ 59,218	\$ 217,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-	-	-	-	50,221	-
Charges for Services	-	101,891	81,831	-	-	-	736,440	-	-
Fines and Forfeits	-	-	-	30,281	40,396	71,892	-	-	59,640
Interest	4,135	1,093	89	298	428	1,617	2,039	617	37
Miscellaneous	-	251	-	-	-	4,001	-	-	-
<b>Total Revenues</b>	<b>63,353</b>	<b>320,735</b>	<b>81,920</b>	<b>30,579</b>	<b>40,824</b>	<b>77,510</b>	<b>738,479</b>	<b>50,838</b>	<b>59,677</b>
<b>EXPENDITURES</b>									
Current:									
General Government	115,852	307,806	85,294	-	29,312	30,743	763,645	19,766	-
Economic Development	-	-	-	-	-	-	-	-	-
Nondepartmental	-	-	-	23,043	9,959	-	-	-	-
<b>Total Expenditures</b>	<b>115,852</b>	<b>307,806</b>	<b>85,294</b>	<b>23,043</b>	<b>39,271</b>	<b>30,743</b>	<b>763,645</b>	<b>19,766</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(52,499)	12,929	(3,374)	7,536	1,553	46,767	(25,166)	31,072	59,677
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers In (Out)	(75,000)	-	-	-	-	-	218,488	(40,000)	(55,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(75,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>218,488</b>	<b>(40,000)</b>	<b>(55,000)</b>
Net Change in Fund Balances	(127,499)	12,929	(3,374)	7,536	1,553	46,767	193,322	(8,928)	4,677
<b>FUND BALANCE, OCTOBER 1</b>	<b>734,684</b>	<b>122,291</b>	<b>24,237</b>	<b>43,057</b>	<b>69,027</b>	<b>241,933</b>	<b>-</b>	<b>98,681</b>	<b>16,318</b>
<b>FUND BALANCE, SEPTEMBER 30</b>	<b>\$ 607,185</b>	<b>\$ 135,220</b>	<b>\$ 20,863</b>	<b>\$ 50,593</b>	<b>\$ 70,580</b>	<b>\$ 288,700</b>	<b>\$ 193,322</b>	<b>\$ 89,753</b>	<b>\$ 20,995</b>



CITY OF SEGUIN, TEXAS  
NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

REVENUES	Convention &	CVB Building	Sebastopol	Police	PEG	Library	Seguin	Seguin	Totals
	Visitors Bureau Fund	Fund	House	Department Donations		Capital Fees	Development Fund	Events Complex	
Taxes	\$ 382,500	\$ -	\$ 77,908	\$ -	\$ 40,221	\$ -	\$ 72,044	\$ -	\$ 849,391
Intergovernmental	-	-	2,249	-	-	-	-	-	52,470
Charges for Services	-	-	-	-	-	-	52,585	-	972,747
Fines and Forfeits	-	-	-	-	-	-	-	-	202,209
Interest	2,789	408	56	435	367	934	362	(77)	15,627
Miscellaneous	3,189	-	5,100	1,186	-	-	-	8,393	22,120
<b>Total Revenues</b>	<b>388,478</b>	<b>408</b>	<b>85,313</b>	<b>1,621</b>	<b>40,588</b>	<b>934</b>	<b>124,991</b>	<b>8,316</b>	<b>2,114,564</b>
<b>EXPENDITURES</b>									
Current:									
General Government	-	-	76,609	500	39,277	-	106,989	10,449	1,586,242
Economic Development	306,482	-	-	-	-	-	-	-	306,482
Nondepartmental	-	-	-	-	-	-	-	-	33,002
<b>Total Expenditures</b>	<b>306,482</b>	<b>-</b>	<b>76,609</b>	<b>500</b>	<b>39,277</b>	<b>-</b>	<b>106,989</b>	<b>10,449</b>	<b>1,925,726</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	81,996	408	8,704	1,121	1,311	934	18,002	(2,133)	188,838
<b>OTHER FINANCING</b>									
<b>SOURCES (USES)</b>									
Transfers In (Out)	(75,000)	-	-	-	-	-	-	-	(26,512)
<b>Total Other Financing Sources (Uses)</b>	<b>(75,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(26,512)</b>
Net Change in Fund Balances	6,996	408	8,704	1,121	1,311	934	18,002	(2,133)	162,326
<b>FUND BALANCE, OCTOBER 1</b>	<b>248,376</b>	<b>57,749</b>	<b>1,438</b>	<b>50,143</b>	<b>68,587</b>	<b>127,615</b>	<b>46,704</b>	<b>17,253</b>	<b>1,968,093</b>
<b>FUND BALANCE, SEPTEMBER 30</b>	<b>\$ 255,372</b>	<b>\$ 58,157</b>	<b>\$ 10,142</b>	<b>\$ 51,264</b>	<b>\$ 69,898</b>	<b>\$ 128,549</b>	<b>\$ 64,706</b>	<b>\$ 15,120</b>	<b>\$ 2,130,419</b>

CITY OF SEGUIN, TEXAS  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET  
SEPTEMBER 30, 2017

ASSETS	General Fund		Golf Course		2013		2014		2010		Miscellaneous		Total
	Capital Projects	Projects	Capital Projects	Projects	Certificates of Obligation	GO Bond Fund	Certificates of Obligation	GO Bond Fund	Certificates of Obligation	Projects Fund	Projects Fund	Total	
Cash and Cash Equivalents	\$ 30,123	\$ 23,136	\$ -	\$ -	972	\$ -	\$ -	\$ -	\$ -	\$ 30,834	\$ -	\$ 30,834	\$ 85,065
Investments	4,507,420	252,191	-	-	39,795	-	-	-	-	251,518	-	251,518	5,050,924
Receivables, Net	129,279	-	-	3,400	-	-	-	-	-	-	-	-	132,679
Prepaid Items	42,426	-	-	-	-	-	-	-	-	-	-	-	42,426
Restricted Cash and Equivalents	-	-	-	35,753	-	-	-	-	850	-	-	-	36,603
Restricted Investments	-	-	-	321,627	-	-	-	-	1,798,545	-	-	-	2,120,172
<b>Total Assets</b>	<b>\$ 4,709,248</b>	<b>\$ 275,327</b>	<b>\$ -</b>	<b>\$ 360,780</b>	<b>\$ 40,767</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,799,395</b>	<b>\$ 282,352</b>	<b>\$ -</b>	<b>\$ 2,120,172</b>	<b>\$ 7,467,869</b>

**LIABILITIES AND FUND BALANCE**

<i>Liabilities:</i>													
Accounts Payable	\$ 226,219	\$ 3,340	\$ 1,725	85,494					\$ 212,356	\$ -	\$ -	\$ -	\$ 529,134
Unearned Revenue	-	500	-	-	-	-	-	-	-	-	-	-	500
<b>Total Liabilities</b>	<b>226,219</b>	<b>3,840</b>	<b>1,725</b>	<b>85,494</b>	<b>1,725</b>	<b>85,494</b>	<b>85,494</b>	<b>85,494</b>	<b>212,356</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>529,634</b>

*Fund Balances:*

Nonspendable - Prepaids	42,426	-	-	-	-	-	-	-	-	-	-	-	42,426
Restricted for Capital Projects	-	-	-	275,286	-	-	-	-	1,587,039	270,082	-	-	2,132,357
Assigned to Capital Projects	4,440,603	271,487	39,042	-	-	-	-	-	-	12,320	-	-	4,763,452
<b>Total Fund Balance</b>	<b>4,483,029</b>	<b>271,487</b>	<b>39,042</b>	<b>275,286</b>	<b>39,042</b>	<b>275,286</b>	<b>275,286</b>	<b>275,286</b>	<b>1,587,039</b>	<b>282,352</b>	<b>-</b>	<b>-</b>	<b>6,938,235</b>

**TOTAL LIABILITIES AND FUND BALANCE**

<b>Total Liabilities</b>	<b>\$ 4,709,248</b>	<b>\$ 275,327</b>	<b>\$ 40,767</b>	<b>\$ 360,780</b>	<b>\$ 40,767</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,799,395</b>	<b>\$ 282,352</b>	<b>\$ -</b>	<b>\$ 2,120,172</b>	<b>\$ 7,467,869</b>
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CITY OF SEGUIN, TEXAS  
NONMAJOR CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

REVENUES	General	Golf	2013	2014	Miscellaneous	Total
	Fund	Course	Certificates of	GO Bond		
	Capital	Capital	Obligation	Fund	Fund	
	Projects	Projects				
Intergovernmental	\$ 182,045	\$ -	\$ -	\$ -	\$ 4,611	\$ 186,656
Licenses and Permits	-	-	-	-	120,350	120,350
Charges for Services	-	168,259	-	-	-	168,259
Interest	51,438	1,387	760	4,057	3,155	79,663
Miscellaneous	79,440	-	-	-	-	79,440
<b>Total Revenues</b>	<b>312,923</b>	<b>169,646</b>	<b>760</b>	<b>4,057</b>	<b>128,116</b>	<b>634,368</b>
<b>EXPENDITURES</b>						
General Government	345,216	-	-	-	-	345,216
Capital Outlay	4,076,434	68,968	155,591	395,271	177,378	5,205,577
Debt Service:						
Principal	283,917	23,199	-	-	-	307,116
Interest & Fiscal Charges	13,847	2,463	-	-	-	16,310
<b>Total Expenditures</b>	<b>4,719,414</b>	<b>94,630</b>	<b>155,591</b>	<b>395,271</b>	<b>177,378</b>	<b>5,874,219</b>
<b>Excess (Deficiency) of Revenues Over (Under Expenditures)</b>	<b>(4,406,491)</b>	<b>75,016</b>	<b>(154,831)</b>	<b>(391,214)</b>	<b>(49,262)</b>	<b>(5,239,851)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers In (Out)	2,498,998	-	-	-	(16,590)	2,482,408
Proceeds of Lease Financing	1,657,330	40,685	-	-	-	1,698,015
<b>Total Other Financing Sources (Uses)</b>	<b>4,156,328</b>	<b>40,685</b>	<b>-</b>	<b>-</b>	<b>(16,590)</b>	<b>4,180,423</b>
<b>Net Change in Fund Balance</b>	<b>(250,163)</b>	<b>115,701</b>	<b>(154,831)</b>	<b>(391,214)</b>	<b>(65,852)</b>	<b>(1,059,428)</b>
<b>FUND BALANCE, OCTOBER 1</b>	<b>4,733,192</b>	<b>155,786</b>	<b>193,873</b>	<b>666,500</b>	<b>348,204</b>	<b>7,997,663</b>
<b>FUND BALANCE, SEPTEMBER 30</b>	<b>\$ 4,483,029</b>	<b>\$ 271,487</b>	<b>\$ 39,042</b>	<b>\$ 275,286</b>	<b>\$ 282,352</b>	<b>\$ 6,938,235</b>

CITY OF SEGUIN, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
OCCUPANCY TAX FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Occupancy Tax	\$ 48	\$ 59,218	\$ 59,170	113,696
Interest	950	4,135	3,185	1,703
Miscellaneous	-	-	-	30
<b>Total Revenues</b>	<b>998</b>	<b>63,353</b>	<b>62,355</b>	<b>115,429</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
<i>General Government:</i>				
Contributions to Local Organizations	115,852	115,852	-	110,339
<b>Total Expenditures</b>	<b>115,852</b>	<b>115,852</b>	<b>-</b>	<b>110,339</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(114,854)</b>	<b>(52,499)</b>	<b>62,355</b>	<b>5,090</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(75,000)	(75,000)	-	(157,167)
<b>Total Other Financing Sources (Uses)</b>	<b>(75,000)</b>	<b>(75,000)</b>	<b>-</b>	<b>(157,167)</b>
<b>Net Change in Fund Balance</b>	<b>(189,854)</b>	<b>(127,499)</b>	<b>62,355</b>	<b>(152,077)</b>
<b>FUND BALANCE, OCTOBER 1</b>	<b>734,684</b>	<b>734,684</b>	<b>-</b>	<b>886,761</b>
<b>FUND BALANCE, SEPTEMBER 30</b>	<b>\$ 544,830</b>	<b>\$ 607,185</b>	<b>\$ 62,355</b>	<b>\$ 734,684</b>

CITY OF SEGUIN, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
COLISEUM FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Occupancy Tax	\$ 217,500	\$ 217,500	\$ -	195,750
Charges for Services	80,450	101,891	21,441	84,810
Interest	200	1,093	893	357
Miscellaneous	100	251	151	159
<b>Total Revenues</b>	<b>298,250</b>	<b>320,735</b>	<b>22,485</b>	<b>281,076</b>
<b>EXPENDITURES</b>				
<i>General Government/Facilities &amp; Grounds:</i>				
Personnel Services	54,753	48,717	6,036	39,549
Contracted Services	209,850	194,518	15,332	200,790
Supplies	20,366	19,946	420	18,454
Other Services and Charges	45,265	44,625	640	1,541
<b>Total Expenditures</b>	<b>330,234</b>	<b>307,806</b>	<b>22,428</b>	<b>260,334</b>
<b>Net Change in Fund Balance</b>	<b>(31,984)</b>	<b>12,929</b>	<b>44,913</b>	<b>20,742</b>
<b>FUND BALANCE, OCTOBER 1</b>	<b>122,291</b>	<b>122,291</b>	<b>-</b>	<b>101,549</b>
<b>FUND BALANCE, SEPTEMBER 30</b>	<b>\$ 90,307</b>	<b>\$ 135,220</b>	<b>\$ 44,913</b>	<b>\$ 122,291</b>

CITY OF SEGUIN, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
AQUATIC CENTER FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017  
(With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Charges for Services	\$ 97,000	\$ 81,831	\$ (15,169)	85,273
Interest	-	89	89	7
<b>Total Revenues</b>	<u>97,000</u>	<u>81,920</u>	<u>(15,080)</u>	<u>85,280</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
<i>General Government/ Parks &amp; Recreation</i>				
Personnel Services	47,189	47,190	(1)	45,038
Contracted Services	24,418	19,696	4,722	20,740
Supplies	18,408	18,408	-	19,473
<b>Total Expenditures</b>	<u>90,015</u>	<u>85,294</u>	<u>4,721</u>	<u>85,251</u>
<b>Net Change in Fund Balance</b>	6,985	(3,374)	(10,359)	29
<b>FUND BALANCE, OCTOBER 1</b>	<u>24,237</u>	<u>24,237</u>	<u>-</u>	<u>24,208</u>
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ 31,222</u>	<u>\$ 20,863</u>	<u>\$ (10,359)</u>	<u>\$ 24,237</u>

CITY OF SEGUIN, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE – BUDGET AND ACTUAL  
GOLF COURSE  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Charges for Services	\$ 665,280	\$ 736,440	\$ 71,160
Interest	-	2,039	2,039
<b>Total Revenues</b>	<u>665,280</u>	<u>738,479</u>	<u>73,199</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
General Government	883,768	763,645	120,123
<b>Total Expenditures</b>	<u>883,768</u>	<u>763,645</u>	<u>120,123</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(218,488)	(25,166)	193,322
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	218,488	218,488	-
<b>Total Other Financing Sources (Uses)</b>	<u>218,488</u>	<u>218,488</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	-	193,322	193,322
<b>FUND BALANCE, OCTOBER 1</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ -</u>	<u>\$ 193,322</u>	<u>\$ 193,322</u>

CITY OF SEGUIN, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 CONVENTION & VISITORS BUREAU  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Occupancy Tax	\$	382,500	\$ -	\$ 322,898
Interest	300	2,789	2,489	628
Miscellaneous	100	3,189	3,089	2,260
<b>Total Revenues</b>	<u>382,900</u>	<u>388,478</u>	<u>5,578</u>	<u>325,786</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General Government	306,483	306,482	1	244,306
<b>Total Expenditures</b>	<u>306,483</u>	<u>306,482</u>	<u>1</u>	<u>244,306</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	76,417	81,996	5,579	81,480
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	(75,000)	(75,000)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	1,417	6,996	5,579	81,480
<b>FUND BALANCE, OCTOBER 1</b>	248,376	248,376	-	166,896
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ 249,793</u>	<u>\$ 255,372</u>	<u>\$ 5,579</u>	<u>\$ 248,376</u>

CITY OF SEGUIN, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 SEBASTOPOL HOUSE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Occupancy Tax	\$	77,908	\$ -	\$ 69,614
Intergovernmental	2,500	2,249	(251)	2,763
Interest	-	56	56	3
Miscellaneous	5,100	5,100	-	9,775
<b>Total Revenues</b>	<u>85,508</u>	<u>85,313</u>	<u>(195)</u>	<u>82,155</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General Government	85,508	76,609	8,899	80,687
<b>Total Expenditures</b>	<u>85,508</u>	<u>76,609</u>	<u>8,899</u>	<u>80,687</u>
<b>Net Change in Fund Balance</b>	-	8,704	8,704	1,468
<b>FUND BALANCE, OCTOBER 1</b>	1,438	1,438	-	(30)
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ 1,438</u>	<u>\$ 10,142</u>	<u>\$ 8,704</u>	<u>\$ 1,438</u>

CITY OF SEGUIN, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 POLICE DONATIONS FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Interest	\$ 100	\$ 435	\$ 335	\$ 168
Miscellaneous	-	1,186	1,186	-
<b>Total Revenues</b>	<u>100</u>	<u>1,621</u>	<u>1,521</u>	<u>168</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
<i>General Government:</i>				
Supplies	10,000	500	9,500	269
<b>Total Expenditures</b>	<u>10,000</u>	<u>500</u>	<u>9,500</u>	<u>269</u>
<b>Net Change in Fund Balance</b>	(9,900)	1,121	11,021	(101)
<b>FUND BALANCE, OCTOBER 1</b>	50,143	50,143	-	50,244
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ 40,243</u>	<u>\$ 51,264</u>	<u>\$ 11,021</u>	<u>\$ 50,143</u>

CITY OF SEGUIN, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 PEG CAPITAL FEES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Franchise Tax	\$ 40,000	40,221	\$ 221	\$ 39,153
Interest	125	367	242	144
<b>Total Revenues</b>	<u>40,125</u>	<u>40,588</u>	<u>463</u>	<u>39,297</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
<i>General Government:</i>				
Contracted Services	40,000	39,277	723	43,112
<b>Total Expenditures</b>	<u>40,000</u>	<u>39,277</u>	<u>723</u>	<u>43,112</u>
<b>Net Change in Fund Balance</b>	125	1,311	1,186	(3,815)
<b>FUND BALANCE, OCTOBER 1</b>	68,587	68,587	-	72,402
<b>FUND BALANCE, SEPTEMBER 30</b>	<u>\$ 68,712</u>	<u>\$ 69,898</u>	<u>\$ 1,186</u>	<u>\$ 68,587</u>

CITY OF SEGUIN, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 SEGUIN EVENTS COMPLEX FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Taxes	\$ 72,044	\$ 72,044	\$ -	\$ 73,395
Charges for Services	37,000	52,585	15,585	40,016
Interest	-	362	362	(16)
<b>Total Revenues</b>	<u>109,044</u>	<u>124,991</u>	<u>15,947</u>	<u>113,395</u>

**EXPENDITURES**

**Current:**

*General Government:*

Personal Services	65,619	65,068	551	44,147
Contracted Services	31,200	30,034	1,166	12,810
Supplies	12,225	11,887	338	9,734
<b>Total Expenditures</b>	<u>109,044</u>	<u>106,989</u>	<u>2,055</u>	<u>66,691</u>

Net Change in Fund Balance

**FUND BALANCE, OCTOBER 1**

**FUND BALANCE, SEPTEMBER 30**

	-	18,002	18,002	46,704
	-	46,704	46,704	-
	-	64,706	64,706	46,704

CITY OF SEGUIN, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE – BUDGET AND ACTUAL  
 LIBRARY DEVELOPMENT FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Actual Amounts for 2016)

	Final Budgeted Amounts	2017	Variance Favorable (Unfavorable)	2016
<b>REVENUES</b>				
Interest	\$ 300	\$ 934	\$ 634	\$ 391
<b>Total Revenues</b>	<u>300</u>	<u>934</u>	<u>634</u>	<u>391</u>

**EXPENDITURES**

**Current:**

*General Government:*

Contracted Services	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Net Change in Fund Balance

**FUND BALANCE, OCTOBER 1**

**FUND BALANCE, SEPTEMBER 30**

	127,615	127,615	-	127,224
	\$ 127,915	\$ 128,549	\$ 634	\$ 127,615



CITY OF SEGUIN, TEXAS  
 COMPARATIVE STATEMENTS OF NET POSITION  
 UTILITY FUND  
 SEPTEMBER 30, 2017 AND 2016

ASSETS	2017	2016
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 58,021	\$ 35,759
Restricted Cash	1,259,918	1,331,333
Unrestricted Cash		
Investments		
Restricted Investments	13,939,344	16,517,975
Unrestricted Investments	26,507,658	24,507,183
Accounts Receivable (Net)	5,733,206	4,879,981
Miscellaneous Receivables	1,929,770	1,734,570
Due from Component Unit	19,035	19,769
Inventories	1,714,946	1,828,261
Prepaid Items	42,470	37,618
<i>Total Current Assets</i>	<u>51,204,368</u>	<u>50,892,449</u>
Net Present Value of Lease Financing	461,972	501,077
Capital Assets	152,624,051	136,363,737
Accumulated Depreciation	(62,269,868)	(58,808,316)
<b>Total Assets</b>	<u>142,020,523</u>	<u>128,948,947</u>

**DEFERRED OUTFLOWS OF RESOURCES**  
 Deferred Pension Related Outflows  
 Deferred Charge on Refundings  
**Total Deferred Outflows of Resources**

	1,597,883	1,768,775
	143,517	164,915
	<u>\$ 1,741,400</u>	<u>\$ 1,933,690</u>

CITY OF SEGUIN, TEXAS  
 COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)  
 UTILITY FUND  
 SEPTEMBER 30, 2017 AND 2016

LIABILITIES	2017	2016
<i>Current Liabilities:</i>		
Accounts Payable	\$ 3,689,357	\$ 5,271,790
Accrued Expenses	423,238	402,017
Unearned Revenue	449,928	95,530
Customer Deposits	619,800	618,315
Current Maturities of Capital Leases Payable from Restricted Assets:	18,512	-
Accrued Interest Payable	272,622	226,947
Revenue Bonds Due Within One Year	1,773,378	1,471,259
<i>Total Current Liabilities</i>	<u>7,246,835</u>	<u>8,085,888</u>
Capital Leases Payable (Net of Current Maturities)	17,608	36,120
Compensated Absences	187,132	182,200
Net Other Post Employment Benefit Obligation	137,339	89,354
Net Pension Liability	8,453,199	8,213,594
Revenue Bonds Payable (Net of Current Maturities)	49,379,025	42,340,139
<i>Total Noncurrent Liabilities</i>	<u>58,174,303</u>	<u>50,861,407</u>
<b>Total Liabilities</b>	<u>65,421,138</u>	<u>58,947,265</u>

**NET POSITION**  
 Net Investment in Capital Assets  
 Restricted for:  
 Debt Service  
 Impact Fees  
 Unrestricted  
**Total Net Position**

	49,099,409	44,783,121
	520,794	559,676
	2,455,075	2,153,557
	26,265,507	24,439,018
	<u>\$ 78,340,785</u>	<u>\$ 71,935,372</u>

CITY OF SEGUIN, TEXAS  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
UTILITY FUND  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>OPERATING REVENUES</b>		
Charges for Services:		
Electric	\$ 30,207,682	\$ 28,090,818
Water	10,368,096	9,793,743
Sewer	7,258,422	6,720,687
Miscellaneous Revenues	2,145,371	1,897,175
<b>Total Operating Revenues</b>	<b>49,979,571</b>	<b>46,502,423</b>
<b>OPERATING EXPENSES</b>		
Administration	2,294,180	2,103,144
Operation and Maintenance:		
Electric Distribution	21,710,301	19,798,287
Utility Services	1,135,092	1,089,640
Water Production	5,251,391	4,689,210
Water/Sewer/Maintenance	4,384,411	3,999,349
Sewer Plant	1,832,403	1,989,632
Economic Development	286,973	378,611
Facilities Maintenance	728,018	695,555
Information Technology	360,369	283,609
City Attorney	226,845	408,241
Nondepartmental	1,021,264	852,045
Indirect Cost Allocation	4,641,289	4,352,992
<b>Total Operating Expenses</b>	<b>43,872,536</b>	<b>40,640,315</b>
Operating Income (Loss)	6,107,035	5,862,108
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	389,947	191,925
Gain (Loss) on Sale of Assets	3,601	14,112
Interest and Fiscal Charges	(1,559,703)	(1,322,631)
Bond Issue Costs	(299,276)	(273,016)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(1,465,431)</b>	<b>(1,389,610)</b>
Net Income (Loss) before Contributions and Transfers	4,641,604	4,472,498
Capital Contributions	1,845,532	975,222
Transfers In (Out)	(81,723)	80,406
	1,763,809	1,055,628
Change in Net Position	6,405,413	5,528,126
Net Position at Beginning of Year	71,935,372	66,407,246
Net Position at End of Year	\$ 78,340,785	\$ 71,935,372

CITY OF SEGUIN, TEXAS  
COMPARATIVE STATEMENTS OF CASH FLOWS  
UTILITY FUND  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Cash Received From Customers	\$ 49,287,029	\$ 45,935,882
Cash Paid for Employee Wages and Benefits	(7,450,073)	(7,352,905)
Cash Paid to Suppliers for Goods and Services	(29,264,614)	(23,249,228)
Cash Paid General Fund for Indirect Costs	(4,641,289)	(4,352,992)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>7,931,053</b>	<b>10,980,757</b>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers From (To) Other Funds	(81,723)	80,406
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(81,723)</b>	<b>80,406</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchase/Construction of Capital Assets	(14,459,123)	(19,814,540)
Proceeds from Revenue and Refunding Bonds	8,415,000	9,815,000
Premiums Received on Bonds	494,961	997,589
Payments to Refunding Agent	-	(6,089,573)
Principal Payments on Long-Term Bonds	(1,471,259)	(1,326,771)
Interest and Fiscal Charges Paid	(1,590,329)	(1,385,989)
Bond Issue Costs	(299,276)	(273,016)
Principal Payments on Capital Leases	-	(16,681)
Advances (To) From Component Unit	734	1,232
Proceeds from Sale of Capital Assets	3,601	14,112
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(8,905,691)</b>	<b>(18,028,637)</b>
<b>Cash Flows From Investing Activities:</b>		
Sale/(Purchase) of Investment Securities	578,156	6,826,667
Investment Interest Received	389,947	191,925
Lease Financing - Principal Payments Received	39,105	37,490
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>1,007,208</b>	<b>7,056,082</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(49,153)</b>	<b>88,608</b>
<b>Cash and Equivalents at Beginning of Year:</b>		
Cash and Cash Equivalents	1,331,333	1,163,275
Restricted Cash and Cash Equivalents	35,759	115,209
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,367,092</b>	<b>1,278,484</b>
<b>Cash and Equivalents at End of Year:</b>		
Cash and Cash Equivalents	1,259,918	1,331,333
Restricted Cash and Cash Equivalents	58,021	35,759
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 1,317,939</b>	<b>\$ 1,367,092</b>

CITY OF SEGUIN, TEXAS  
 COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)  
 UTILITY FUND  
 YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 6,107,035	\$ 5,862,108
Adjustments to reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,505,895	3,166,531
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(1,048,425)	162,993
Inventory/Prepaid Items	108,463	169,076
Deferred Pension Related Outflows	170,892	(1,066,184)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(1,582,433)	2,083,123
Accrued Expenses	26,153	(127,054)
Net Other Postemployment Benefit Obligation	47,985	21,708
Net Pension Liability	239,605	1,437,990
Unearned Revenue	354,398	(610,300)
Customer Deposits	1,485	(119,234)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 7,931,053</b>	<b>\$ 10,980,757</b>

**Transactions Not Affecting Cash and Cash Equivalents:**

Capital and Related Financing Activities:		
Developer Contributions - Capital Assets	\$ 1,845,532	\$ 975,222

CITY OF SEGUIN, TEXAS  
 COMPARATIVE SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT  
 UTILITY FUND  
 YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
<i>Administration:</i>		
Personnel Services	\$ 2,015,432	\$ 1,955,006
Contracted Services	171,197	44,733
Supplies and Materials	79,977	76,276
Other Charges	21,709	20,309
Depreciation	5,865	6,820
<b>Total Administration</b>	<b>2,294,180</b>	<b>2,103,144</b>
<i>Electric Production and Distribution:</i>		
Personnel Services	1,265,193	1,260,110
Contracted Services	1,286,799	1,410,471
Supplies and Materials	18,351,972	16,367,503
Other Charges	24,587	4,027
Depreciation	781,750	756,176
<b>Total Electric Production and Distribution</b>	<b>21,710,301</b>	<b>19,798,287</b>
<i>Utility Services</i>		
Personnel Services	959,214	894,320
Contracted Services	145,952	163,755
Supplies and Materials	20,625	24,737
Other Charges	9,301	6,828
<b>Total Utility Services</b>	<b>1,135,092</b>	<b>1,089,640</b>
<i>Water Production:</i>		
Personnel Services	786,515	747,495
Contracted Services	3,879,764	3,562,428
Supplies and Materials	92,761	99,012
Other Charges	16,989	13,459
Depreciation	475,362	266,816
<b>Total Water Production</b>	<b>5,251,391</b>	<b>4,689,210</b>
<i>Water/Sewer Maintenance:</i>		
Personnel Services	1,105,578	988,790
Contracted Services	1,435,310	1,346,630
Supplies and Materials	56,579	49,802
Other Charges	235,807	156,691
Depreciation	1,551,137	1,457,436
<b>Total Water/Sewer Maintenance</b>	<b>4,384,411</b>	<b>3,999,349</b>
<i>Sewer Plant:</i>		
Personnel Services	612,601	570,756
Contracted Services	762,926	978,478
Supplies and Materials	95,051	74,860
Other Charges	6,157	4,823
Depreciation	355,668	360,714
<b>Total Sewer Plant</b>	<b>\$ 1,832,403</b>	<b>\$ 1,989,631</b>

CITY OF SEGUIN, TEXAS  
COMPARATIVE SCHEDULE OF OPERATING EXPENSES BY DEPARTMENT (CONTINUED)  
UTILITY FUND  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2017	2016
<i>Economic Development:</i>		
Personnel Services	\$ 248,671	\$ 328,621
Contracted Services	20,844	28,384
Supplies and Materials	2,044	24
Other Charges	15,414	21,583
<i>Total Economic Development</i>	<u>286,973</u>	<u>378,612</u>
<i>Facilities Maintenance:</i>		
Personnel Services	634,335	594,802
Contracted Services	63,540	69,043
Supplies and Materials	29,489	30,881
Other Charges	654	830
<i>Total Facilities Maintenance</i>	<u>728,018</u>	<u>695,556</u>
<i>Information Technology:</i>		
Personnel Services	217,949	193,416
Contracted Services	136,216	86,714
Supplies and Materials	1,346	674
Other Charges	4,858	2,804
<i>Total Information Technology</i>	<u>360,369</u>	<u>283,608</u>
<i>City Attorney:</i>		
Personnel Services	89,220	86,049
Contracted Services	135,634	320,305
Supplies and Materials	72	81
Other Charges	1,919	1,806
<i>Total City Attorney</i>	<u>226,845</u>	<u>408,241</u>
<i>Nondepartmental:</i>		
Contracted Services	322,420	334,763
Supplies and Materials	23,681	4,377
Other Charges	339,049	194,336
Depreciation	336,114	318,569
<i>Total Nondepartmental</i>	<u>1,021,264</u>	<u>852,045</u>
Indirect Cost Allocation	4,641,289	4,352,992
Total Operating Expenses	<u>\$ 43,872,536</u>	<u>\$ 40,640,315</u>

CITY OF SEGUIN, TEXAS  
COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
SEPTEMBER 30, 2017  
(With Comparative Amounts for 2016)

	Internal Insurance Fund	Retirees Insurance Fund	Workers Compensation Fund	Totals
	2017	2017	2017	2016
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 236,085	\$ 20,964	\$ 20,766	\$ 248,525
Investments	440,847	510,423	179,866	869,062
Miscellaneous Receivables	-	18,082	-	8,610
Due from Other funds	-	494	-	-
Prepaid Items	3,423	-	-	-
<b>Total Assets</b>	<u>680,355</u>	<u>549,963</u>	<u>200,632</u>	<u>1,126,197</u>
<b>LIABILITIES</b>				
Accounts Payable	7,401	-	-	5,911
<b>Total Liabilities</b>	<u>7,401</u>	<u>-</u>	<u>-</u>	<u>5,911</u>
<b>NET POSITION</b>				
Unrestricted	672,954	549,963	200,632	1,120,286
<b>Total Net Position</b>	<u>\$ 672,954</u>	<u>\$ 549,963</u>	<u>\$ 200,632</u>	<u>\$ 1,120,286</u>

CITY OF SEGUIN, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
 NET POSITION – INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Amounts for 2016)

	Internal Insurance Fund	Retirees Insurance Fund	Workers Compensation Fund	Totals
				2017
<b>OPERATING REVENUES</b>				2016
Charges for Premiums	\$ 3,351,282	\$ 96,698	\$ 232,901	\$ 3,495,783
Miscellaneous Revenues	-	-	-	-
<b>Total Operating Revenues</b>	<b>3,351,282</b>	<b>96,698</b>	<b>232,901</b>	<b>3,495,783</b>
<b>OPERATING EXPENSES</b>				
Premiums	3,074,688	93,816	194,316	3,219,375
Administration	30,000	-	-	41,000
<b>Total Operating Expenses</b>	<b>3,104,688</b>	<b>93,816</b>	<b>194,316</b>	<b>3,260,375</b>
<b>OPERATING INCOME (LOSS)</b>	<b>246,594</b>	<b>2,882</b>	<b>38,585</b>	<b>235,408</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income	1,239	4,345	718	2,037
<b>Total Nonoperating Revenues (Expenses)</b>	<b>1,239</b>	<b>4,345</b>	<b>718</b>	<b>2,037</b>
<b>Net Income (Loss) Before Contributions and Transfers</b>	<b>247,833</b>	<b>7,227</b>	<b>39,303</b>	<b>237,445</b>
<b>Transfers In (Out)</b>	<b>-</b>	<b>8,900</b>	<b>-</b>	<b>71,762</b>
<b>Change in Net Position</b>	<b>247,833</b>	<b>16,127</b>	<b>39,303</b>	<b>309,207</b>
<b>Net Position At Beginning of Year</b>	<b>425,121</b>	<b>533,836</b>	<b>161,329</b>	<b>811,079</b>
<b>Net Position at End of Year</b>	<b>\$ 672,954</b>	<b>\$ 549,963</b>	<b>\$ 200,632</b>	<b>\$ 1,120,286</b>

CITY OF SEGUIN, TEXAS  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017  
 (With Comparative Amounts for 2016)

	Internal Insurance Fund	Retirees Insurance Fund	Workers Compensation Fund	Totals
				2017
<b>Cash Flows From Operating Activities:</b>				2016
Cash Received from Interfund Services	\$ 2,621,386	\$ 86,733	\$ 232,901	\$ 2,941,020
Cash Paid from Users	729,896	-	-	734,127
Cash Paid for Employee Benefits	(3,106,621)	(93,816)	(194,316)	(3,294,754)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>244,661</b>	<b>(7,083)</b>	<b>38,585</b>	<b>276,163</b>
<b>Cash Flows From Noncapital Financing Activities:</b>				
Operating Transfers from/to Other Funds	-	8,900	-	8,900
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>-</b>	<b>8,900</b>	<b>-</b>	<b>8,900</b>
<b>Cash Flows From Investing Activities:</b>				
Sale/(Purchase) of Investments	(208,833)	(9,084)	(441,559)	(262,076)
Investment Interest Received	1,240	4,345	718	6,303
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(207,593)</b>	<b>(4,739)</b>	<b>(43,441)</b>	<b>(212,581)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>37,068</b>	<b>(2,922)</b>	<b>(4,856)</b>	<b>88,066</b>
<b>Cash and Equivalents at Beg of Year</b>	<b>199,017</b>	<b>23,886</b>	<b>25,622</b>	<b>248,525</b>
<b>Cash and Equivalents at End of Year</b>	<b>\$ 236,085</b>	<b>\$ 20,964</b>	<b>\$ 20,766</b>	<b>\$ 277,815</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Income (Loss)	\$ 246,594	\$ 2,882	\$ 38,585	\$ 288,061
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
(Increase) Decrease in Miscellaneous Receivables	-	(9,471)	-	(9,471)
Advances to Other Funds	-	(494)	-	(494)
Prepaid Items	(3,423)	-	-	(3,423)
Increase (Decrease) in Accounts Payable	1,490	-	-	1,490
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 244,661</b>	<b>\$ (7,083)</b>	<b>\$ 38,585</b>	<b>\$ 276,163</b>

CITY OF SEGUIN, TEXAS  
 COMBINING STATEMENT OF NET POSITION  
 FIDUCIARY (PRIVATE PURPOSE TRUST) FUNDS  
 SEPTEMBER 30, 2017

	Riverside Cemetery Fund	Industrial Development Fund	DARE Scholarship Fund	Total Private Purpose Trusts
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ -	\$ 875	\$ 1,040	\$ 1,915
Investments	14,768	267,354	1,451	283,573
Inventory	-	359,431	-	359,431
<b>Total Assets</b>	<u>14,768</u>	<u>627,660</u>	<u>2,491</u>	<u>644,919</u>
<b>LIABILITIES</b>				
Due to Others	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Position Held in Trust</b>	<u>\$ 14,768</u>	<u>\$ 627,660</u>	<u>\$ 2,491</u>	<u>\$ 644,919</u>

CITY OF SEGUIN, TEXAS  
 COMBINING STATEMENT OF CHANGES IN NET POSITION  
 FIDUCIARY (PRIVATE PURPOSE TRUST) FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Riverside Cemetery Fund	Industrial Development Fund	DARE Scholarship Fund	Total Private Purpose Trusts
<b>ADDITIONS</b>				
Interest	\$ 113	\$ 2,133	\$ 18	\$ 2,264
<b>Total Additions</b>	<u>113</u>	<u>2,133</u>	<u>18</u>	<u>2,264</u>
<b>DEDUCTIONS</b>				
Distribution to Participants	-	-	2,000	2,000
<b>Total Deductions</b>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>2,000</u>
<b>Change in Net Position</b>	<u>113</u>	<u>2,133</u>	<u>(1,982)</u>	<u>264</u>
<b>Net Position, Beginning of Year</b>	<u>14,655</u>	<u>625,527</u>	<u>4,473</u>	<u>644,655</u>
<b>Net Position, End of Year</b>	<u>\$ 14,768</u>	<u>\$ 627,660</u>	<u>\$ 2,491</u>	<u>\$ 644,919</u>

CITY OF SEGUIN, TEXAS  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

CITY OF SEGUIN, TEXAS  
 STATISTICAL SECTION  
 SEPTEMBER 30, 2017

This part of the City of Seguin's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about Seguin's overall financial health.

Financial Trends

Net Position by Component  
 Changes in Net Position  
 Fund Balances, Governmental Funds  
 Changes in Fund Balances, Governmental Funds

*These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.*

Revenue Capacity

Tax Revenues by Source, Governmental Funds  
 Assessed Value and Actual Value of Property  
 Direct and Overlapping Property Tax Rates  
 Principal Property Taxpayers  
 Property Tax Levies and Collections

*These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales tax.*

Debt Capacity

Ratios of Outstanding Debt by Type  
 Ratios of General Bonded Debt Outstanding  
 Direct and Overlapping Governmental Activities Debt  
 Legal Debt Margin  
 Pledged Revenue Coverage

*These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.*

Demographic and Economic Information

Demographic and Economic Statistics  
 Principal Employers

*These schedules offer demographic and economic indicators to help the reader understand how the City's financial activities take place and to help make comparisons over time and with other governments.*

Operating Information

Operating Indicators by Function  
 Capital Asset Statistics by Function  
 Full-time Equivalent City Government Employees by Function

*These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.*

Evidence/Abandoned Funds	Balance September 30, 2016	Additions	Deductions	Balance September 30, 2017
<i>Assets:</i>				
Cash and Equivalents	\$ 50,132	\$ -	\$ 22,625	\$ 27,507
<i>Liabilities</i>				
Due to Others	\$ 50,132	\$ -	\$ 22,625	\$ 27,507

CITY OF SEGUIN, TEXAS  
NET POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(Accrual Basis of Accounting)

TABLE 1

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<i>Governmental Activities:</i>										
Net Investment in Capital Assets	\$ 18,958,130	\$ 18,647,949	\$ 19,035,061	\$ 22,058,500	\$ 21,979,540	\$ 21,518,984	\$ 21,780,455	\$ 25,657,965	\$ 28,065,213	\$ 30,491,009
Restricted	970,062	1,091,155	1,243,295	2,399,602	2,793,614	3,323,527	3,352,071	3,306,292	2,912,376	2,806,714
Unrestricted	11,362,829	11,832,570	12,804,348	13,476,007	24,998,610	26,172,941	24,028,627	2,882,554	(1,309,424)	(3,141,355)
<i>Total Governmental Activities</i>										
<i>Net Position</i>	\$ 31,291,021	\$ 31,571,674	\$ 33,082,704	\$ 37,934,109	\$ 49,771,764	\$ 51,015,452	\$ 49,161,153	\$ 31,846,811	\$ 29,668,165	\$ 30,156,368
<i>Business-Type Activities:</i>										
Net Investment in Capital Assets	\$ 24,502,485	\$ 25,817,049	\$ 26,030,163	\$ 26,908,429	\$ 27,668,999	\$ 29,869,105	\$ 36,385,747	\$ 39,946,492	\$ 44,783,121	\$ 49,099,409
Restricted	1,122,407	1,088,411	1,884,617	2,916,398	3,239,558	3,594,942	3,558,479	3,651,700	2,713,233	2,975,869
Unrestricted	15,241,512	17,796,040	19,735,076	29,660,618	30,740,418	30,205,790	32,360,850	22,809,054	24,439,018	26,265,507
<i>Total Business-Type Activities</i>										
<i>Net Position</i>	\$ 40,866,404	\$ 44,701,500	\$ 47,649,856	\$ 59,485,445	\$ 61,648,975	\$ 63,669,837	\$ 72,305,076	\$ 66,407,246	\$ 71,935,372	\$ 78,340,785
<i>Primary Government:</i>										
Net Investment in Capital Assets	\$ 43,460,615	\$ 44,464,998	\$ 45,065,224	\$ 48,966,929	\$ 49,648,539	\$ 51,388,089	\$ 58,166,202	\$ 65,604,457	\$ 72,848,334	\$ 79,590,418
Restricted	2,092,469	2,179,566	3,127,912	5,316,000	6,033,172	6,918,469	6,910,550	6,957,992	5,625,609	5,782,583
Unrestricted	26,604,341	29,628,610	32,539,424	43,136,625	55,739,028	56,378,731	56,389,477	25,691,608	23,129,594	23,124,152
<i>Total Primary Government</i>										
<i>Net Position</i>	\$ 72,157,425	\$ 76,273,174	\$ 80,732,560	\$ 97,419,554	\$ 111,420,739	\$ 114,685,289	\$ 121,466,229	\$ 98,254,057	\$ 101,603,537	\$ 108,497,153

\* Change in Accounting Principle pursuant to GASB 68 applied prospectively effective October 1, 2014.  
Comparative information has not been restated.







CITY OF SEGUIN, TEXAS  
 FUND BALANCES, GOVERNMENTAL FUNDS  
 LAST TEN FISCAL YEARS

TABLE 3

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<i>General Fund:</i>										
Nonspendable	\$ 66,379	\$ 61,015	\$ 56,899	\$ 73,101	\$ 66,104	\$ 2,037,347	\$ 70,386	\$ 98,698	\$ 107,383	\$ 120,838
Restricted	-	-	-	22,800	22,800	20,100	20,100	25,300	5,300	7,905
Committed	-	-	-	-	2,208,762	2,163,385	2,165,441	2,167,774	2,018,494	1,536,104
Assigned	-	-	-	-	-	157,464	151,582	126,887	52,312	3,440
Unassigned	7,372,266	7,697,782	8,655,304	8,773,457	17,454,678	15,568,700	16,586,852	15,571,620	12,974,522	11,505,167
<b>Total General Fund</b>	<b>\$ 7,438,645</b>	<b>\$ 7,758,797</b>	<b>\$ 8,712,203</b>	<b>\$ 8,869,358</b>	<b>\$ 19,752,344</b>	<b>\$ 19,946,996</b>	<b>\$ 18,994,361</b>	<b>\$ 17,990,279</b>	<b>\$ 15,158,011</b>	<b>\$ 13,173,454</b>
<i>All other Governmental Funds:</i>										
Nonspendable	\$ 2,160	\$ 5,520	\$ 4,295	\$ -	\$ 22,852	\$ 12,803	\$ 5,874	\$ 15,570	\$ 1,163	\$ 43,326
Restricted - Special Revenue	982,294	1,002,698	1,065,039	1,389,762	1,701,526	1,748,490	1,752,872	1,854,260	1,942,693	1,913,334
Restricted - Capital Projects	9,788,858	7,435,646	3,749,080	11,920,110	14,004,274	13,155,149	30,155,607	17,309,757	11,643,846	15,335,309
Restricted - Debt Service	851,815	945,507	1,068,598	945,380	1,019,857	1,510,096	1,645,809	1,467,186	982,371	893,141
Committed - Special Revenue	11,529	23,137	23,413	31,331	11,113	10,726	24,192	24,208	24,237	214,185
Assigned - Capital Projects	2,196,305	2,259,074	1,940,052	2,059,875	2,183,206	2,860,482	3,220,890	4,067,387	5,045,454	4,763,452
<b>Total Other Governmental Funds</b>	<b>\$ 13,832,961</b>	<b>\$ 11,671,582</b>	<b>\$ 7,850,477</b>	<b>\$ 16,346,458</b>	<b>\$ 18,942,828</b>	<b>\$ 19,297,746</b>	<b>\$ 36,805,244</b>	<b>\$ 24,738,368</b>	<b>\$ 19,639,764</b>	<b>\$ 23,164,747</b>

CITY OF SEGUIN, TEXAS  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS

TABLE 4

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
Taxes	\$ 10,578,794	\$ 11,000,334	\$ 11,586,011	\$ 12,413,070	\$ 14,250,325	\$ 14,653,908	\$ 14,396,360	\$ 15,437,258	\$ 16,237,296	\$ 17,492,007
Licenses and Permits	542,193	273,991	329,009	325,496	404,953	384,153	688,637	1,242,939	740,076	1,062,336
Intergovernmental	999,436	1,467,479	2,253,478	1,462,440	1,842,006	1,692,026	1,692,199	3,397,057	1,891,931	2,151,733
Charges for Services	4,260,013	4,942,725	5,127,519	5,071,986	5,375,293	5,364,318	5,724,792	5,846,015	6,047,893	6,852,536
Fines and Forfeits	964,752	818,794	1,366,173	1,534,392	1,422,147	1,446,373	1,894,219	1,899,976	1,695,053	1,909,706
Interest	674,264	201,149	54,851	35,283	63,074	378,958	36,579	40,290	181,889	394,487
Miscellaneous	455,465	329,079	129,349	741,762	721,692	778,174	1,080,418	979,661	958,334	920,641
<b>Total Revenues</b>	<b>18,474,917</b>	<b>19,033,551</b>	<b>20,846,390</b>	<b>21,584,429</b>	<b>24,079,490</b>	<b>24,067,910</b>	<b>25,513,204</b>	<b>28,843,196</b>	<b>27,752,472</b>	<b>30,783,446</b>
<b>Expenditures</b>										
General Government	2,930,937	3,047,345	3,043,817	3,271,912	2,970,433	2,995,289	3,291,439	3,469,890	4,029,991	5,002,392
Public Safety	8,277,544	8,532,673	8,862,366	9,919,756	9,946,852	10,421,044	11,099,683	11,847,542	12,595,423	13,497,928
Public Service	3,907,102	4,087,284	4,541,940	4,562,336	5,877,185	5,996,218	6,087,470	6,523,397	7,075,027	7,191,996
Nondepartmental	1,416,615	1,310,186	1,491,764	1,809,481	1,620,181	1,949,011	2,202,136	2,047,626	2,251,191	2,726,158
Indirect Cost Allocation (Recovery)	(2,798,522)	(2,869,702)	(2,952,855)	(3,288,861)	(3,430,197)	(3,674,342)	(3,848,566)	(4,190,324)	(4,352,992)	(4,641,289)
Capital Projects/ Outlay	5,705,912	4,970,168	5,751,957	3,792,747	2,702,978	2,305,774	5,466,886	17,192,358	21,967,537	10,730,592
Debt Service:										
Principal	1,189,174	1,414,361	1,466,258	1,584,205	1,973,707	1,977,394	2,370,179	2,680,967	2,602,766	2,860,858
Interest and Fiscal Charges	1,307,381	1,465,362	1,428,424	1,678,851	1,686,787	1,628,268	2,011,346	2,164,212	2,249,381	2,705,449
Bond Issue Costs	249,427	22,500	-	328,000	146,006	45,636	363,655	193,604	379,187	216,893
<b>Total Expenditures</b>	<b>22,185,570</b>	<b>21,980,177</b>	<b>23,633,671</b>	<b>23,658,427</b>	<b>23,493,932</b>	<b>23,644,292</b>	<b>29,044,228</b>	<b>41,929,272</b>	<b>48,797,711</b>	<b>40,290,977</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(3,710,653)</b>	<b>(2,946,626)</b>	<b>(2,787,281)</b>	<b>(2,073,998)</b>	<b>585,558</b>	<b>423,618</b>	<b>(3,531,024)</b>	<b>(13,086,076)</b>	<b>(21,045,239)</b>	<b>(9,507,531)</b>
<b>Other Financing Sources (Uses)</b>										
Transfers In	1,747,357	811,222	631,000	1,386,102	1,264,924	2,496,336	3,536,891	4,178,395	4,668,304	3,377,486
Transfers Out	(1,194,357)	(811,222)	(711,428)	(1,763,058)	(1,435,973)	(2,615,120)	(4,185,763)	(4,356,879)	(4,820,473)	(3,304,663)
Issuance of Long-Term Financing	9,380,927	1,105,409	-	11,104,090	6,455,635	4,549,100	22,944,017	8,817,821	23,070,779	10,975,135
Payments to Refunding Bond Escrow Agent	-	-	-	-	(2,975,988)	(4,304,364)	-	(8,624,217)	(9,804,242)	-
<b>Total Other Financing Sources (Uses)</b>	<b>9,933,927</b>	<b>1,105,409</b>	<b>(80,428)</b>	<b>10,727,134</b>	<b>3,308,598</b>	<b>125,952</b>	<b>22,295,145</b>	<b>15,120</b>	<b>13,114,368</b>	<b>11,047,958</b>
<b>Special Items</b>	<b>230,662</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,585,200</b>	<b>-</b>	<b>(2,209,258)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>\$ 6,453,936</b>	<b>\$ (1,841,217)</b>	<b>\$ (2,867,709)</b>	<b>\$ 8,653,136</b>	<b>\$ 13,479,356</b>	<b>\$ 549,570</b>	<b>\$ 16,554,863</b>	<b>\$ (13,070,956)</b>	<b>\$ (7,930,871)</b>	<b>\$ 1,540,427</b>
Debt Service as a percentage of Noncapital Expenditures	16.1%	16.5%	15.7%	16.4%	17.5%	17.4%	18.1%	19.4%	17.1%	18.6%

CITY OF SEGUIN, TEXAS  
TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS

TABLE 5

Fiscal Year	Property	Sales & Use	Occupancy	Franchise	Total
2008	\$ 5,074,767	\$ 4,355,410	\$ 523,108	\$ 625,509	\$ 10,578,794
2009	5,594,080	4,256,246	458,343	691,665	11,000,334
2010	5,641,089	4,473,399	550,999	920,524	11,586,011
2011	6,298,369	4,495,098	786,585	833,018	12,413,070
2012	7,015,151	5,512,435	869,409	853,330	14,250,325
2013	7,160,423	5,833,464	762,465	897,556	14,653,908
2014	6,914,873	5,841,830	726,361	913,296	14,396,360
2015	7,646,433	6,011,867	832,550	946,409	15,437,258
2016	8,030,337	6,158,250	835,858	1,212,852	16,237,297
2017	9,390,960	6,195,774	849,390	1,055,883	17,492,007

CITY OF SEGUIN, TEXAS  
ASSESSED VALUE AND ACTUAL VALUE OF PROPERTY  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 6

Fiscal Year	Residential Property	Commercial Property	Industrial Property	All Other Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2017	\$ 952,385,968	\$ 557,472,552	\$ 760,165,027	\$ 523,306,180	\$ 994,770,018	\$ 1,798,558,709	0.5412
2016	862,290,556	538,741,553	629,044,703	181,755,812	685,592,928	1,554,809,696	0.5286
2015	810,622,634	523,445,251	587,892,017	148,519,377	598,745,708	1,471,733,571	0.5244
2014	738,143,976	489,211,189	576,499,288	136,133,611	570,260,123	1,369,727,941	0.5173
2013	738,982,849	466,714,399	785,423,174	152,396,679	713,834,301	1,428,682,800	0.5073
2012	723,441,220	431,521,993	550,301,805	150,003,452	467,115,554	1,388,352,916	0.5073
2011	716,337,690	381,012,529	344,847,282	220,121,445	334,238,078	1,328,080,868	0.4893
2010	668,475,414	383,484,507	330,139,839	209,183,412	312,223,664	1,279,059,508	0.4600
2009	657,580,380	369,860,723	334,046,725	195,824,119	342,543,265	1,214,768,682	0.4823
2008	602,014,523	330,995,847	312,967,436	190,092,227	320,532,212	1,115,537,811	0.4726

Source: Guadalupe County Appraisal District

Tax rates are per \$100 of assessed value.

Total Taxable Assessed Value is not adjusted for enacted freeze on property values for certain taxpayers, which became effective January 1, 2006.

The freeze adjusted taxable value for the 2016 tax roll was \$1,535,549,617.

CITY OF SEGUIN, TEXAS  
DIRECT AND OVERLAPPING PROPERTY TAX RATES  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 7

Fiscal Year	City Direct Rates		Overlapping Rates	
	General M&O	Debt Service	School District	Guadalupe County
2008	\$ 0.2587	\$ 0.2139	\$ 1.1600	\$ 0.3845
2009	0.2323	0.2500	1.2498	0.3295
2010	0.2325	0.2275	1.2498	0.3895
2011	0.2693	0.2200	1.2498	0.3999
2012	0.2693	0.2380	1.2598	0.4036
2013	0.2698	0.2375	1.2770	0.4036
2014	0.2942	0.2231	1.2800	0.3999
2015	0.3000	0.2244	1.3150	0.3941
2016	0.3126	0.2130	1.4100	0.3851
2017	0.3104	0.2308	1.4200	0.3851

CITY OF SEGUIN, TEXAS  
PRINCIPAL PROPERTY TAXPAYERS  
CURRENT YEAR AND NINE YEARS AGO  
(Unaudited)

TABLE 8

Taxpayer	Fiscal Year 2017 (2016 Tax Levy)			Fiscal Year 2008 (2007 Tax Levy)		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Helmerich & Payne Inc.	\$ 120,741,336	1	6.71%	\$ -	-	--
Temec Automotive (Motorola)	70,291,506	2	3.91%	47,700,142	1	4.28%
Hexcel Corporation	21,876,886	3	1.22%	19,114,090	3	1.71%
8th Street Properties	14,447,522	4	0.80%	-	-	--
Ameritex Pipe & Products LLC	13,940,777	5	0.78%	-	-	--
Ranch @ SH123 Loop	12,228,600	6	0.68%	-	-	--
ET Seguin Dist LLC	10,904,073	7	0.61%	-	-	--
Wonder Properties LTD	9,972,000	8	0.55%	-	-	--
Tyson Foods, Inc.	9,690,453	9	0.54%	10,613,878	5	0.95%
Helmerich & Payne International Drill	8,500,000	10	0.47%	-	-	--
Rio Nogales Power Project LP	-	-	--	20,105,231	2	1.80%
ITW MiniCorp Inc.	-	-	--	12,101,856	4	1.08%
Frontier Land Limited	-	-	--	9,359,098	6	0.84%
Wal-Mart Real Estate Business Trust	-	-	--	7,435,946	7	0.67%
Wal Mart Store	-	-	--	6,882,258	8	0.62%
HD Development Properties LP	-	-	--	6,087,804	9	0.55%
Stomovic & Mark LLC	-	-	--	6,025,123	10	0.54%
Total	\$ 292,993,153		16.27%	\$ 145,425,426		13.04%

CITY OF SEGUIN, TEXAS  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 9

Fiscal Year Ended September 30	Taxes Levied for the Fiscal Year	Collected Within		Collections in Subsequent Years	Total Collections to Date	
		Fiscal Year of Levy Amount	% of Levy		Amount	% of Levy
2008	\$ 5,061,063	\$ 4,855,402	95.9%	\$ 196,739	\$ 5,052,141	99.8%
2009	5,618,105	5,443,556	96.9%	162,926	5,606,482	99.8%
2010	5,987,710	5,829,714	97.4%	143,855	5,973,569	99.8%
2011	6,243,006	6,056,865	97.0%	169,551	6,226,416	99.7%
2012	6,766,524	6,577,230	97.2%	169,674	6,746,904	99.7%
2013	6,971,685	6,842,125	98.1%	105,270	6,947,395	99.7%
2014	6,676,209	6,529,859	97.8%	105,689	6,635,548	99.4%
2015	7,438,963	7,320,383	98.4%	67,180	7,387,563	99.3%
2016	7,811,018	7,649,611	97.9%	87,526	7,737,137	99.1%
2017	9,263,759	8,999,501	97.1%	-	8,999,501	97.1%

Amount collected includes discounts

CITY OF SEGUIN, TEXAS  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 10

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Actual Taxable Value of Property	Percentage of Taxable Value of Property	Per* Capita	Percentage of Personal Income
	Bonds	Notes Payable	Capital Leases	Revenue	Bonds	Capital Leases					
2008	\$ 31,538,000	\$ 1,889,749	\$ 40,664	\$ 17,095,000	\$ 205,019	\$ 50,465,432	\$ 1,115,577,811	45%	\$ 1,895	13.1%	
2009	30,580,000	2,164,298	112,163	16,345,000	185,325	48,367,866	1,214,768,682	41%	1,765	12.8%	
2010	29,540,000	1,772,520	77,683	15,570,000	164,547	47,124,750	1,279,659,898	37%	1,607	10.2%	
2011	30,235,000	1,345,970	329,118	22,600,000	144,321	63,654,409	1,328,080,868	4.8%	2,528	16.1%	
2012	41,831,415	930,000	211,860	21,816,106	122,815	64,912,195	1,386,322,916	4.7%	2,202	15.9%	
2013	40,694,177	565,000	370,476	20,981,197	101,857	62,561,707	1,428,682,800	4.4%	2,408	15.2%	
2014	61,417,651	185,000	406,658	19,914,666	70,339	81,994,293	1,469,727,941	6.0%	3,006	16.3%	
2015	59,514,659	-	238,572	40,328,318	52,801	100,154,250	1,471,753,571	6.8%	3,424	18.1%	
2016	70,289,498	-	126,386	43,811,598	36,120	114,267,402	1,554,809,696	7.3%	3,488	19.3%	
2017	76,828,222	-	1,517,298	51,152,402	36,120	129,534,042	1,798,588,709	7.2%	4,317	21.7%	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

\* Population and Personal Income data can be found on Table 15.

CITY OF SEGUIN, TEXAS  
RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 11

Fiscal Year	General Bonded Debt		Available in Debt Service Funds	Total	Actual Taxable Value of Property	Percentage of Actual Taxable Value of Property	Per Capita*
	Bonds	Notes Payable					
2008	\$ 31,555,000	\$ 1,589,749	\$ (851,815)	\$ 32,272,934	\$ 1,115,537,811	2.9%	1,155
2009	30,580,000	2,164,298	(945,517)	31,798,781	1,214,768,682	2.6%	1,137
2010	29,540,000	1,772,520	(1,068,598)	30,243,922	1,279,059,508	2.4%	1,031
2011	39,325,000	1,345,970	(945,380)	39,725,590	1,328,080,868	3.0%	1,578
2012	41,831,415	930,000	(1,019,857)	41,741,558	1,388,352,916	3.0%	1,609
2013	40,604,177	565,000	(1,510,096)	39,659,081	1,428,682,800	2.8%	1,526
2014	61,417,631	185,000	(1,645,809)	59,956,822	1,369,727,941	4.4%	2,249
2015	59,514,639	-	(1,467,186)	58,047,453	1,471,733,571	3.9%	1,985
2016	70,287,498	-	(982,371)	69,305,127	1,554,809,696	4.5%	2,310
2017	76,828,222	-	(893,141)	75,935,081	1,798,558,709	4.2%	2,531

Note: Details about the City's outstanding debt can be found in the notes to the financial statements.  
\*Population data can be found on Table 15.

CITY OF SEGUIN, TEXAS  
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
SEPTEMBER 30, 2017  
(Unaudited)

TABLE 12

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable*	Estimated Share of Overlapping Debt
Debt Repaid with Property Taxes			
Guadalupe County	\$ 17,259,417	19.46%	\$ 3,358,683
Seguin Independent School District	146,199,647	48.80%	71,345,428
Subtotal, Overlapping Debt			74,704,111
Seguin Direct Debt			76,828,222
Total Direct and Overlapping Debt			<u>\$ 151,532,333</u>

Source: Municipal Advisory Council of Texas.

Note: Overlapping governments are those that coincide, at least in part, within the geographic boundaries of the City. This schedule estimates the portion of outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Seguin, Texas. This process recognizes that, when considering the City of Seguin's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.



CITY OF SEGUIN, TEXAS  
COMPUTATION OF LEGAL DEBT MARGIN  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 13

Legal Debt Margin Calculation for Fiscal Year 2016

Assessed Value	\$ 1,798,558,709
* Debt limit (10% of assessed value)	179,855,871
Outstanding Debt <sup>(1)</sup>	76,828,222
Less: amount set aside for repayment of general obligation debt	(893,141)
Total net debt applicable to limit	<u>75,935,081</u>
Economic Debt Margin	<u>\$ 103,920,790</u>

	Fiscal Year	2010	2011	2012
Debt Limit	2008	\$ 111,553,781	\$ 127,905,951	\$ 138,808,087
Total net debt applicable to limit		(32,522,934)	(31,798,781)	(30,243,922)
Economic Debt Margin		\$ 79,030,847	\$ 89,678,087	\$ 97,662,029

	Fiscal Year	2013	2014	2015	2016	2017
Debt Limit		\$ 142,868,280	\$ 136,972,794	\$ 147,173,357	\$ 155,480,970	\$ 179,855,871
Total net debt applicable to limit		(39,242,331)	(59,956,822)	(58,047,453)	(69,305,127)	(75,935,081)
Economic Debt Margin		\$ 103,625,949	\$ 77,015,972	\$ 89,125,904	\$ 86,175,843	\$ 103,920,790

<sup>(1)</sup> Texas does not have a legal debt margin for cities. The only limit on taxation is \$2.50 per \$100 of assessed value. Good financial integrity calls for 10% of assessed value to be used for debt limit.

CITY OF SEGUIN, TEXAS  
PLEDGED REVENUE COVERAGE  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 14

Fiscal Year	Utility Service Charges	Less: Operating Expenses*	Net Available Revenue	Debt Service Principal	Interest	Coverage
2008	\$ 38,334,793	\$ (34,927,078)	\$ 3,407,715	\$ 555,000	\$ 715,330	2.68
2009	41,231,252	(34,938,855)	6,292,397	750,000	744,488	4.21
2010	39,290,331	(33,098,744)	6,191,587	775,000	714,449	4.16
2011	43,211,099	(34,002,636)	9,208,463	805,000	961,171	5.21
2012	41,463,853	(35,728,904)	5,734,949	904,521	944,857	3.10
2013	40,827,258	(35,513,981)	5,313,277	839,048	734,437	3.38
2014	42,017,948	(33,121,499)	8,896,449	1,079,232	703,016	4.99
2015	42,645,590	(37,931,959)	4,713,631	1,077,119	1,253,491	2.02
2016	46,502,423	(37,473,784)	9,028,639	1,326,771	1,382,137	3.33
2017	49,979,571	(40,706,005)	9,273,566	1,471,259	1,636,004	2.98

\* All operating expenses exclusive of depreciation

CITY OF SEGUIN, TEXAS  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 LAST TEN CALENDAR YEARS  
 (Unaudited)

TABLE 15

Year	Census Population	Population Estimate	Median Family Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment	
							Rate	Rate
2008	22,011	27,951	\$ 36,931	\$ 13,740	32.6	7,501	4.7	
2009	22,011	27,979	36,931	13,740	33.0	7,559	7.1	
2010	22,011	29,325	38,060	15,730	32.4	7,562	6.4	
2011	25,175	25,175	38,060	15,730	32.4	7,547	7.3	
2012	25,175	25,943	38,060	15,730	32.4	7,440	6.8	
2013	25,175	25,981	38,060	15,730	32.4	7,556	5.4	
2014	25,175	26,660	38,526	18,901	35.3	7,529	4.2	
2015	25,175	29,241	41,835	18,933	36.2	7,400	3.4	
2016	25,175	30,006	41,835	19,754	37.2	7,459	3.4	
2017	25,175	30,006	36,755	19,853	37.2	7,461	3.6	

Sources: Population, median family income, per capita personal income, and median age information provided by the United States Census Bureau and the Texas State Data Center and are the most recent available for the city. Population estimates are based on addition of annexed areas. School enrollment information provided by Seguin Independent School District. Unemployment rate is for Guadalupe County and is provided by the Texas Workforce Commission and the U.S. Dept. of Labor. Unemployment data is not available for the City.

CITY OF SEGUIN, TEXAS  
 PRINCIPAL EMPLOYERS  
 CURRENT YEAR AND NINE YEARS AGO  
 (Unaudited)

TABLE 16

Employer	2017			2008		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Texas Power Systems/CAT	1,800	1	14.18%	--	--	--
Continental AG (Motorola)	1,600	2	12.60%	717	3	7.79%
Seguin Independent School District	1,130	3	8.90%	1,184	1	12.87%
CMC Steel	835	4	6.58%	1,024	2	11.13%
Tyson Foods	745	5	5.87%	500	6	5.43%
Guadalupe Regional Medical Center	700	6	5.51%	698	4	7.59%
Guadalupe County	595	7	4.69%	568	5	6.17%
City of Seguin	380	8	2.99%	285	9	3.10%
HEB	340	9	2.68%	225	10	2.45%
Wal-Mart Super Center	300	10	2.36%	400	7	4.35%
Texas Lutheran University	--	--	--	304	8	3.30%
Total	8,425		66.36%	5,905		64.18%

Source: Seguin Area Chamber of Commerce, Texas Workforce Commission, and Seguin Economic Development Corporation.

CITY OF SEGUIN, TEXAS  
OPERATING INDICATORS BY FUNCTION  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 17

Function	Fiscal Year					Fiscal Year				
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Police</b>										
Physical arrests	1,755	2,328	1,798	1,605	1,138	1,509	1,548	1,444	1,200	1,210
Traffic citations	12,206	11,068	12,740	15,988	8,911	12,349	15,040	13,027	14,456	17,612
Parking citations	1,324	70	265	308	291	176	44	517	615	850
<b>Fire/EMS</b>										
Emergency responses	3,842	4,130	3,682	3,748	3,903	3,162	3,692	3,578	3,738	3,578
Non-emergency response/Service Calls	1,424	1,366	1,126	804	588	1,837	1,435	74	604	609
Inspections	1,252	1,467	1,065	379	482	831	289	654	728	670
<b>Refuse collection (by private contractor)</b>										
# of customers	8,796	8,623	8,400	8,079	7,945	7,850	7,739	7,609	7,486	7,450
<b>Parks and Recreation</b>										
Park and sport facility rentals	732	763	701	639	622	624	734	721	690	709
Sport league participants	3,614	3,352	2,358	740	2,251	2,815	2,670	2,611	2,073	2,008
Program participants	3,359	3,769	4,539	4,640	3,509	5,172	4,822	4,782	5,875	6,214
Wave Pool admissions	11,430	12,801	13,447	13,077	13,126	13,126	14,015	10,504	13,693	14,015
<b>Library</b>										
Volumes in collection	73,137	69,055	56,276	64,366	62,220	69,563	76,126	76,440	76,805	75,202
Total volumes borrowed	269,824	168,429	183,771	197,304	205,281	210,820	229,389	233,609	226,206	218,206
<b>Electric</b>										
# of customers	8,538	8,438	8,500	8,314	8,293	8,191	8,210	8,011	8,014	8,069
Sales (millions of \$)	29.7	27.3	28.5	25.7	25.3	25.8	26.5	26.4	28.2	25.6
<b>Water</b>										
# of customers	7,393	7,298	7,250	7,120	7,116	7,088	7,060	7,019	7,044	7,086
Average daily production (millions of gal.)										
Surface water	3.20	3.73	2.84	2.69	2.35	2.77	2.88	2.14	2.01	2.32
Well water	3.06	2.71	2.92	3.04	3.01	3.17	3.40	3.16	4.12	3.79
Total	6.26	6.44	5.76	5.73	5.36	5.94	6.28	5.30	6.13	6.11
Water main repairs (main sizes from 3/4" to 16")	175	126	455	403	127	74	56	97	76	70
<b>Wastewater</b>										
Average daily sewage treatment (millions of gal.)	5.40	4.57	4.05	3.29	3.74	4.13	3.96	3.33	3.22	3.02

Sources: City departments

Notes: Fire/EMS statistics are on a calendar basis. Program participants under Parks and Recreation include day camp, after-school, softball, & swimming lessons. Sales of electricity are of purchased power; the City does not generate electric power.

CITY OF SEGUIN, TEXAS  
CAPITAL ASSET STATISTICS BY FUNCTION  
LAST TEN FISCAL YEARS  
(Unaudited)

TABLE 18

Function	Fiscal Year					Fiscal Year				
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Police</b>										
Stations	1	1	1	1	1	1	1	1	1	1
Police vehicles	84	73	70	67	66	62	62	61	61	60
Fire stations	3	3	3	3	3	3	3	3	3	3
<b>Public works</b>										
Streets (miles of paved)	179.64	178.48	178.48	178.48	178.48	178.48	178.48	174.91	174.63	174.52
<b>Parks and Recreation</b>										
Number of parks	12	12	12	11	11	11	10	10	10	10
Acreage	346.91	346.91	346.91	299.91	299.91	299.91	289.41	289.41	289.41	289.41
<b>Water</b>										
Water mains (miles)	165.73	164.00	164.00	161.00	161.00	117.00	118.90	118.63	118.28	117.64
Fire hydrants	1,306	1,293	1,284	1,100	1,085	1,081	978	978	978	976
Storage capacity (millions of gallons)	8.64	8.64	8.64	7.79	7.79	7.79	7.79	7.79	7.79	7.79
<b>Wastewater</b>										
Sanitary sewers (miles)	179.88	178.00	178.00	175.00	152.00	118.00	129.00	124.27	123.84	119.25

CITY OF SEGUIN, TEXAS  
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION  
 LAST TEN FISCAL YEARS  
 (Unaudited)

TABLE 19

Function	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>General Government</b>										
Financial Administration	8	8	8	8	8	8	7	7	7	8
City Manager	3	4	4	4	3	3	3	3	5	5
Human Resources	6	6	5	5	5	5	5	5	5	6
Planning and Zoning	13	11	11	11	11	10	10	9	9	9
City Secretary	1	1	1	1	1	1	1	1	1	1
Information Systems	6	5	5	4	3	3	3	2	0	0
Facilities and Grounds	5	4	4	4	3	3	12	11	9	10
<b>Public Safety</b>										
Police	81	79	78	76	72	72	68	68	64	63
Fire/EMS	58	57	56	56	53	51	51	49	47	50
Legal & Judicial	6	6	5	5	5	5	4	4	4	4
Animal Control	7	5	5	4	4	4	3	3	3	3
<b>Public Service</b>										
Public Works	34	32	29	27	26	28	24	18	18	17
Vehicle Maintenance	3	3	3	3	3	3	3	3	3	3
Library	14	13	8	8	8	8	8	8	8	8
Parks and Recreation	19	19	19	16	18	17	10	8	7	8
Golf Course	8	9	9	9	9	9	9	9	9	8
DownTown & Main St. Program	2	2	2	2	2	2	2	2	2	2
Coliseum	2	2	1	1	1	1	1	1	1	1
<b>Utility Fund</b>										
Administration	3	3	3	2	2	2	2	2	2	4
Electric Production/Distribution	15	15	15	11	10	10	20	17	18	19
Utility Services	13	11	10	10	10	10	0	0	0	0
Water Production	11	11	11	11	10	11	11	17	15	17
Water/Sewer Maintenance	16	15	11	10	10	11	11	10	11	9
Sewer Plant	9	8	8	8	7	8	8	8	8	8
Economic Development	4	4	4	4	4	3	3	3	2	2
Facilities Maintenance	17	13	12	14	13	13	12	13	13	14
Utility Billing	6	5	5	5	5	6	6	6	6	6
CVB	3	3	3	2	2	1	1	0	0	0
<b>Total</b>	<b>373</b>	<b>354</b>	<b>335</b>	<b>321</b>	<b>308</b>	<b>308</b>	<b>299</b>	<b>287</b>	<b>277</b>	<b>285</b>

Source: City Human Resources Department

Nancy L. Vaughan, CPA  
Deborah F. Fraser, CPA  
Phil S. Vaughan, CPA



Armstrong, Vaughan & Associates, P.C.  
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Seguin, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Seguin, Texas, basic financial statements and have issued our report thereon dated February 15, 2018. The financial statements of the discretely-presented component unit, Seguin Economic Development Corporation, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Seguin, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Seguin, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Seguin, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the city's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Phone: 210-658-6229 • Fax: 210-659-7611 • Email: vaughan@avacpa.com • www.avacpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Seguin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the City of Seguin, Texas in a separate letter dated February 15, 2018.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, reading 'Armstrong, Vaughan &amp; Associates, P.C.', written in black ink.

Armstrong, Vaughan & Associates, P.C.

February 15, 2018

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Phone: 210-658-6229 • Fax: 210-659-7611 • Email: vaughan@avacpa.com • www.avacpa.com

**APPENDIX E**

**General Purpose Financial Statements for the  
Schertz-Seguin Local Government Corporation  
for the Fiscal Year Ended September 30, 2017**

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SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

CORPORATE OFFICIALS

SEPTEMBER 30, 2017

PRESIDENT ..... ROBIN DWYER  
VICE-PRESIDENT ..... TIMOTHY "JAKE" JACOBS  
SECRETARY ..... DAVID REILEY  
TREASURER ..... ANDREW HUNT  
ASSISTANT SECRETARY ..... KOREY KIRCHNER  
GENERAL MANAGER ..... ALAN COCKERELL

SCHERTZ/SEGUIN  
LOCAL GOVERNMENT CORPORATION  
ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2017 and 2016



SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
ANNUAL FINANCIAL REPORT  
SEPTEMBER 30, 2017

Nancy L. Vaughan, CPA  
Deborah F. Fraser, CPA  
Phil S. Vaughan, CPA



Armstrong, Vaughan & Associates, P.C.  
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

INTRODUCTORY SECTION

Members of the Board of Directors  
Schertz/Seguin Local Government Corporation

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**Report on the Financial Statements**

We have audited the accompanying financial statements of the Schertz/Seguin Local Government Corporation as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Schertz/Seguin Local Government Corporation's basic financial statements as listed in the Table of Contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain 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 opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schertz/Seguin Local Government Corporation, as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity 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 management's discussion and analysis on pages 3 through 7 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 regarding the methods of preparing the information and comparing the information for consistency with management's response 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.



Armstrong, Vaughan & Associates, P.C.

February 20, 2018

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Schertz/Seguin Local Government Corporation's financial performance provide an overview of the Corporation's financial activities for the fiscal year ended September 30, 2017. Please read it in conjunction with the Corporation's financial statements.

#### HIGHLIGHTS

##### Financial Highlights

- The Corporation's net position was \$16,170,829 at September 30, 2017.
- Total operating revenues were \$17,668,511, while total operating expenses were \$9,119,651.

##### Corporation Highlights

- The Corporation currently owns approximately 4,388 acres of land and leases water rights to another 15,147 acres in Gonzales County where the wells and treatment plant are located. SSLGC is permitted to produce 19,362 acre-feet of water per year from twelve wells.
- The Corporation currently owns approximately 1,494 acres of land and leases water rights to another 12,511 acres in Guadalupe County. SSLGC is permitted to produce for a total of 3,226 acre feet of water per year from the Carrizo aquifer and 1,290.4 acre feet from the Wilcox aquifer.

#### USING THIS ANNUAL REPORT

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

##### Required financial statements

The Financial Statements of the Corporation report information about the Corporation using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the Corporation's assets, deferred outflows of resources, deferred inflows of resources, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Corporation and assessing the liquidity and financial flexibility of the Corporation. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Corporation's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations as "from where did the cash come?" "for what was cash used?" and "what was the change in cash balance during the reporting period?"

**FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE**

One of the most important questions asked about the Corporation's finances is "Is the Corporation, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Corporation's activities in a way that will help answer this question. These two statements report the net position of the Corporation and changes in them. You can think of the Corporation's net position—the difference between assets, deferred outflows of resources, deferred inflows of resources, and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the Corporation's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The Corporation's total net position is \$16,170,829. Our analysis below focuses on the Corporation's net position (Table 1) and changes in net position (Table 2) during the year.

**Table 1**  
**Schertz-Seguin Local Government Corporation's**  
**Net Position**

	2017	2016	2015
Current Assets	\$ 15,279,192	\$ 13,527,427	\$ 16,110,100
Restricted Assets	73,947,779	7,359,879	7,690,087
Net Property, Plant & Equipment	95,008,923	95,187,724	93,153,345
Other Assets	28,653	108,809	194,208
<b>TOTAL ASSETS</b>	<b>184,264,547</b>	<b>116,183,839</b>	<b>117,147,740</b>
Deferred Charge on Refunding	2,412,138	2,546,875	2,681,612
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>2,412,138</b>	<b>2,546,875</b>	<b>2,681,612</b>
Current Liabilities	5,522,205	4,858,647	6,047,766
Revenue Bonds Payable	164,983,651	100,976,449	103,363,928
<b>TOTAL LIABILITIES</b>	<b>170,505,856</b>	<b>105,835,096</b>	<b>109,411,694</b>
Net Investment in Capital Assets	(1,956,872)	(2,288,897)	(4,454,571)
Restricted	6,255,257	5,364,082	5,043,721
Unrestricted	11,872,444	9,820,433	9,828,508
<b>TOTAL NET POSITION</b>	<b>\$ 16,170,829</b>	<b>\$ 12,895,618</b>	<b>\$ 10,417,658</b>

Net Income before contributions was \$3,275,211.

Changes in the Corporation's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Position for the year.

**Table 2**  
**Changes in Schertz-Seguin Local Government Corporation's**  
**Net Position**

	2017	2016	2015
Total Operating Revenues	\$ 17,668,511	\$ 16,010,417	\$ 17,477,139
Interest Income	772,494	85,829	17,595
<b>TOTAL REVENUES</b>	<b>18,441,005</b>	<b>16,096,246</b>	<b>17,494,734</b>
Total Operating Expenses	9,119,651	9,304,597	9,017,446
Interest Expense & Fiscal Agent Fees	5,131,266	4,313,689	2,668,447
Other Nonoperating Expenses	914,877	-	912,761
<b>TOTAL EXPENSES</b>	<b>15,165,794</b>	<b>13,618,286</b>	<b>12,598,654</b>
Net Income (Loss)	3,275,211	2,477,960	4,896,080
Net Position at Beginning of Year	12,895,618	10,417,658	5,521,578
<b>TOTAL NET POSITION</b>	<b>\$ 16,170,829</b>	<b>\$ 12,895,618</b>	<b>\$ 10,417,658</b>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of Fiscal year 2017, the Corporation had \$95,008,923, net of depreciation, invested in capital assets, including water treatment plants, water transmission and distribution mains, water storage facilities, pump stations as well as land. This is a decrease of \$178,801 due to current depreciation. Several projects are still ongoing resulting in a balance of Projects in Progress of \$6,887,613. Accumulated Depreciation increased by \$2,414,652.

**Table 3**  
**Schertz-Seguin Local Government Corporation's Assets**

	2017	2016	2015
Land	\$ 15,471,540	\$ 15,471,540	\$ 14,810,128
Water Distribution System	91,067,482	91,067,482	88,439,644
Buildings and Improvements	943,377	935,492	881,646
Equipment and Vehicles	608,891	549,266	444,598
Accumulated Depreciation	(19,969,980)	(17,555,328)	(15,160,314)
	88,121,310	90,468,452	89,415,702
Projects in Progress	6,887,613	4,719,272	3,737,643
Net Property, Plant & Equipment	\$ 95,008,923	\$ 95,187,724	\$ 93,153,345

**Long Term Debt**

At year-end, the Corporation had a total of \$165,440,000 bonds outstanding as compared to \$101,245,000 the previous year. New bonds were issued to fund the Guadalupe expansion project as well as the parallel pipeline project.

**Bond Ratings**  
The Corporation's bonds presently carry "AAA" ratings with underlying ratings as follows: Fitch "AA," and Standard & Poors "A-".

**Table 4**  
**Schertz-Seguin Local Government Corporation's**  
**Long-Term Debt**

	2017	2016	2015
Bonds Payable	\$ 165,440,000	\$ 101,245,000	\$ 103,510,000
Total Bonds Payable	\$ 165,440,000	\$ 101,245,000	\$ 103,510,000

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The Corporation has secured SWIFT funding in the amount of \$66,500,000 for its current expansion project that includes the Guadalupe project and a parallel pipeline from the booster pump station in Seguin to the terminus in Schertz. The Corporation owns property in Guadalupe County that includes well sights, a treatment plant sight and one existing Carrizo well. Permits for production of groundwater from the Carrizo-Wilcox aquifer have been issued by the local groundwater conservation district. The Corporation is currently acquiring the additional easements for the parallel pipeline. The design phase is scheduled to be completed in 2018. Construction of this project is projected to begin in 2019 with completion in 2021.
- A permanent solution to address the water quality issue with the addition of SAWS water that causes corrosion in the treatment process is in the final stages of installation. This issue does not affect finished water quality delivered to customers.
- Phase one of the cathodic protection project is complete providing adequate coverage for the 42 inch and 30 inch pipeline segments from the water treatment plant to the City of Seguin. The second stage for the 36 inch pipeline from Seguin to Schertz is under review and may possibly coincide with the installation of the parallel pipeline.
- Removal of obsolete chemical tanks at water treatment plant one has been completed along with the installation of additional doors to provide improved access to the original building. Evaluation is under way to determine the best utilization of that space.
- One 15.247 acre parcel in Gonzales County was sold and another 11.699 acre parcel is under contract with a potential buyer. These properties contained dwellings that posed a liability to the Corporation and the disposal was at market prices above the investment that was made. The Corporation also retained the water rights for these properties.

**CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Schertz-Seguin Local Government Corporation, General Manager, P. O. Box 833, Seguin, Texas 78156-0833.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
COMPARATIVE STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2017 AND 2016

<b>ASSETS</b>	2017	2016
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 13,198,159	\$ 12,060,236
Accounts Receivable	1,859,907	1,364,335
Other Receivables	158,111	26,151
Inventory	63,015	76,705
<i>Total Current Assets</i>	<b>15,279,192</b>	<b>13,527,427</b>
<i>Restricted Assets:</i>		
Cash and Cash Equivalents	73,947,779	7,359,879
<i>Total Restricted Assets</i>	<b>73,947,779</b>	<b>7,359,879</b>
<i>Property, Plant &amp; Equipment:</i>		
Land	15,471,540	15,471,540
Water Distribution System	91,067,482	91,067,482
Buildings & Improvements	943,377	935,492
Equipment & Vehicles	608,891	549,266
Projects in Progress	6,887,613	4,719,272
Accumulated Depreciation	(19,969,980)	(17,555,328)
<i>Net Property, Plant &amp; Equipment</i>	<b>95,008,923</b>	<b>95,187,724</b>
<i>Other Assets:</i>		
Lease Acquisition Costs (Net of Amortization of \$825,341 and \$745,185)	28,653	108,809
<i>Total Other Assets</i>	<b>28,653</b>	<b>108,809</b>
<b>Total Assets</b>	<b>184,264,547</b>	<b>116,183,839</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charge on Refunding	2,412,138	2,546,875
<b>Total Deferred Outflows of Resources</b>	<b>\$ 2,412,138</b>	<b>\$ 2,546,875</b>

The accompanying notes are an integral part of these statements. 8

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

<b>LIABILITIES</b>	2017	2016
<i>Current Liabilities:</i>		
Accounts Payable - Trade	\$ 1,969,279	\$ 1,785,629
Accounts Payable - Construction Projects	91,235	60,501
Accrued Interest Payable	861,197	706,917
Unearned Revenue	190,494	600
Current Portion of Revenue Bonds	2,410,000	2,305,000
<i>Total Current Liabilities</i>	<b>5,522,205</b>	<b>4,858,647</b>
Revenue Bonds Payable (Less Current Maturities and Net of Unamortized Discounts and Premiums)	164,983,651	100,976,449
<b>Total Liabilities</b>	<b>170,505,856</b>	<b>105,835,096</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	(1,956,872)	(2,288,897)
Restricted:		
Debt Service	882,168	912,641
Repairs and Replacement	500,000	500,000
Impact Fees	4,873,089	3,951,441
Unrestricted	11,872,444	9,820,433
<b>Total Net Position</b>	<b>\$ 16,170,829</b>	<b>\$ 12,895,618</b>

The accompanying notes are an integral part of these statements. 9

SCHERTZ/SEGUN LOCAL GOVERNMENT CORPORATION  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Revenue</b>		
Water Usage Fees	\$ 16,415,653	\$ 14,675,393
Rents, Royalties & Leases	53,698	146,214
Impact Fees	849,289	927,843
Management Services Provided	121,823	109,985
Miscellaneous Fees	228,048	150,982
<b>Total Operating Revenues</b>	<u>17,668,511</u>	<u>16,010,417</u>
<b>Operating Expenses</b>		
<i>Operations &amp; Maintenance:</i>		
Personnel Costs	981,171	979,998
Professional Services	267,438	779,903
Technical Services	368,381	250,750
Utilities	1,668,305	1,713,862
Repairs and Maintenance	295,016	256,109
General Supplies	505,013	476,526
Insurance	46,000	46,000
Other Operating Costs	56,949	68,683
<i>Total Operations &amp; Maintenance</i>	<u>4,188,273</u>	<u>4,571,831</u>
<i>Other Operating Expenses:</i>		
Amortization of Lease Acquisition Costs	80,156	85,399
Annual Lease Payments - Water Rights	2,414,771	2,252,353
Depreciation	2,436,451	2,395,014
<i>Total Other Operating Expenses</i>	<u>4,931,378</u>	<u>4,732,766</u>
<b>Total Operating Expenses</b>	<u>9,119,651</u>	<u>9,304,597</u>
Operating Income (Loss)	<u>8,548,860</u>	<u>6,705,820</u>
<b>Nonoperating Revenues (Expenses):</b>		
Interest Income	772,494	85,829
Gain on Sale of Assets	1,414	-
Interest Expense and Fiscal Fees	(5,131,266)	(4,313,689)
Bond Issuance Costs	(916,291)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(5,273,649)</u>	<u>(4,227,860)</u>
<b>Change in Net Position</b>	<u>3,275,211</u>	<u>2,477,960</u>
<b>Net Position - Beginning of Year</b>	<u>12,895,618</u>	<u>10,417,658</u>
<b>Net Position - End of Year</b>	<u>\$ 16,170,829</u>	<u>\$ 12,895,618</u>

The accompanying notes are an integral part of these statements.

SCHERTZ/SEGUN LOCAL GOVERNMENT CORPORATION  
COMPARATIVE STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Cash Received From Customers	\$ 17,230,873	\$ 15,695,092
Cash Paid to Suppliers	(6,405,704)	(7,628,169)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>10,825,169</u>	<u>8,066,923</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Payments Toward Projects in Progress	(2,137,607)	(3,836,774)
Purchase of Land	-	(661,412)
Purchase of Building & Improvements	(7,885)	-
Purchase of Equipment and Vehicles	(81,424)	(104,668)
Proceeds from Sale of Assets	1,414	-
Proceeds from Contract Revenue Bonds	65,583,709	-
Bond Interest and Fiscal Fees Paid	(4,925,047)	(4,269,773)
Bond Principal Payment	(2,305,000)	(2,265,000)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>56,128,160</u>	<u>(11,137,627)</u>
<b>Cash Flows From Investing Activities</b>		
Interest Received	772,494	85,829
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>772,494</u>	<u>85,829</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<u>67,725,823</u>	<u>(2,984,875)</u>
Cash and Cash Equivalents at Beginning of Period	<u>19,420,115</u>	<u>22,404,990</u>
Cash and Cash Equivalents at End of Period	<u>\$ 87,145,938</u>	<u>\$ 19,420,115</u>
<b>Cash and Cash Equivalents as Reported on Balance Sheet:</b>		
Cash and Cash Equivalents	\$ 13,198,159	\$ 12,060,236
Restricted Cash and Cash Equivalents	73,947,779	7,359,879
	<u>\$ 87,145,938</u>	<u>\$ 19,420,115</u>

The accompanying notes are an integral part of these statements.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
COMPARATIVE STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016

	2017	2016
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating Income (Loss)	\$ 8,548,860	\$ 6,705,820
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Amortization of Lease Acquisition Costs	80,156	85,399
Depreciation	2,436,451	2,395,014
(Increase) Decrease in Accounts Receivable	(495,572)	(105,769)
(Increase) Decrease in Other Receivables	(131,960)	33,775
(Increase) Decrease in Inventory	13,690	-
Increase (Decrease) in Accounts Payable	183,650	(803,985)
Increase (Decrease) in Unearned Revenue	189,894	(243,331)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 10,825,169</b>	<b>\$ 8,066,923</b>

**SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:**

Historical Cost of Equipment Disposed	\$ 21,799	\$ -
Accumulated Depreciation	(21,799)	-
Net Book Value	-	-

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Financial Reporting Entity

The Schertz/Seguin Local Government Corporation was incorporated December 23, 1998 pursuant to the provisions of the Texas Transportation Corporation Act and the Texas Local Government Code. The Corporation was organized to aid, assist, and act on behalf of the Cities of Schertz and Seguin, collectively, in acquiring, constructing, improving or extending, and maintaining and operating a water utility system for public use.

The Corporation meets the criteria of a joint venture between the cities of Schertz and Seguin with an ongoing financial responsibility. The Cities have pledged revenues from existing water utility systems to finance the operations and long-term debt of the Corporation, either through purchasing water from the Corporation or subsidizing through direct payments (reflected as "Contributions from Participating Governments"). The Corporation continues to actively pursue the development of alternate water sources.

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

2. Enterprise Fund

The Corporation is an enterprise fund. Enterprise funds are proprietary funds used to account for business-type activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

3. Basis of Accounting

The statements are presented on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is used whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

4. Cash and Cash Equivalents

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the Corporation. Cash and cash equivalents also include investments in local government pools because the pools seek to maintain a \$1 per share value and average dollar weighted maturity of not more than 90 days (see also Note A-5).



NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Investments

Investments consist of certificates of deposit, investments in TexPool and MBIA Asset Management Group (public funds investment pools), and obligations of the U.S. government and its agencies. Investments are recorded at fair value, except for short-term (one year or less to maturity at time of purchase) participating interest-earning investment contracts which are reported at amortized cost. In addition, non-participating contracts (such as nonnegotiable certificates of deposit) are reported at amortized cost.

Following Statement No. 72, "Fair Value Measurement and Application," the Corporation categorizes its fair value measurements within the 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.

Public funds investment pools in Texas are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to the other provisions of the Act designed to promote liquidity and safety of principal, the Act requires pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

6. Accounts Receivable

Accounts receivable consists of amounts due from member entities and customers. Management considers all outstanding amounts to be collectible and has not recorded an allowance for doubtful accounts.

7. Inventory

Inventory of replacement parts for the water distribution system are valued at cost on a first-in, first-out basis.

8. Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds are segregated to report those proceeds of revenue bond issuances that are restricted for construction. Funds are also segregated to provide for debt service as provided under bond indenture agreements.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Property, Plant & Equipment

All purchased property, plant and equipment is valued at cost if purchased, and donated property is valued at the estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation of exhaustible plant and equipment is charged as an expense against operations when the asset is placed in service and accumulated depreciation is reported on the balance sheet. Depreciation is provided in amounts sufficient to relate the cost of fixed assets to operations over their estimated service lives using the straight-line method. Estimated useful lives are as follows:

	Useful Life (Years)
Fixed Asset	10 - 50
Utility Water System	40
Building and Improvements	5 - 20
Equipment and Vehicles	5 - 20

For the years ended September 30, 2017 and 2016, depreciation in the amount of \$2,436,451 and \$2,395,014, respectively, was recognized.

10. Lease Acquisition and Lease Costs

Costs incurred to purchase or lease property for its water rights are capitalized. Those costs include amounts paid to landowners to enter into the leases, and legal costs. The costs are being amortized over the 10 year minimum lease term.

11. Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation only has one item that qualifies for reporting in this category: deferred charge on refunding reported in the statement of position. 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.

12. Unearned Revenue

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. The Corporation does not recognize revenues for Impact Fees until a work order has been approved. Therefore, fees received in advance of approved work orders are reflected as unearned revenue.

13. Long-Term Obligations

Long-term obligations are reported as liabilities in the Corporation's balance sheet. Bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. Equity Classifications

Equity is classified as net position and displayed in three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets (net of accumulated depreciation) and lease acquisition costs (net of accumulated amortization) and reduced by the outstanding balances of bonds (net of premiums and discounts) and short-term notes that are attributable to the acquisition, construction or improvement of those assets. As of September 30, 2017, total outstanding debt exceeded investment in capital assets due to annual depreciation and amortization charges exceeding principal repayments on bonded debt in early years of debt issuance schedules.
- b. *Restricted net position* – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Bond covenants require a Repairs and Replacement fund be maintained and funds restricted for that purpose. Additionally, the Impact Fee Resolution requires that fees be separated and restricted (along with investment earnings) to finance water facilities generated by new development.
- c. *Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

15. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the Corporation, those revenues are charges for water provided to customers, and charges for use of property. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

16. Use of Estimates

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

NOTE B -- DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized in the following paragraphs.

*Deposits* – All deposits with financial institutions must be fully collateralized. The collateral must be held by the pledging financial institution’s trust department or equivalent. As of September 30, 2017, the carrying amount of the Corporation’s deposits was \$93,902 and the bank balance was \$210,548. The bank balance was fully collateralized.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

*Investments* – The Corporation is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (“Act”) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the Corporation adhered to the requirements of the Act. Additionally, investment practices of the Corporation were in accordance with local policies.

The Act determines the types of investments which are allowable for the Corporation. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

As of the end of the year (respectively), the Corporation had the following investments:

Investment Type	2017	2016
Local Government Investment Pools	\$ 19,745,833	\$ 17,630,621
Certificates of Deposit	1,496,000	1,505,000
FIMM Govt. Portfolio - Held in Escrow	65,810,203	-
	<u>\$ 87,052,036</u>	<u>\$ 19,135,621</u>

All of the Corporation’s investments are valued using prices quoted in active markets (Level 1 inputs) except for Certificates of Deposit which are recorded at amortized cost.

*Credit Risk*. The Corporation’s investment policy limits investments to obligations of the United States or its agencies and instrumentalities (maximum 95% of funds); direct obligations of the State of Texas; obligations of states, agencies, contracts, cities, and other political subdivisions rated as to investment quality of not less than AAA by a nationally recognized investment firm.

The Corporation may also invest up to 100% of its funds in government investment pools provided the pool maintains a AAA rating, the pool maintains a stable asset value, and the average dollar weighted maturity does not exceed 90 days. As of September 30, 2017, the Corporation had investments in TexPool and MBIA Texas Class Portfolio Holdings. The escrowed funds are invested in Fidelity Investments Money Market Government Portfolio – Class II, which also maintains a stable asset value (\$1 per share) and has an average dollar weighted maturity of less than 90 days. TexPool, MBIA Texas Class Portfolio Holdings, and FIMM Govt. Portfolio – Class II are rated AAAm by Standard and Poors.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2017, the Corporation was not subject to custodial credit risk.

NOTE C-- PROPERTY, PLANT & EQUIPMENT, AND LEASE ACQUISITION COSTS

The Corporation has acquired land and land leases for the purpose of establishing well sites and water treatment facilities. The Corporation has acquired over 4,000 acres to date for this purpose.

Changes in Land, Equipment & Vehicles, Projects in Progress, and Lease Acquisition costs are as follows:

	Balance 10/1/2016	Additions	(Retirements)	Balance 9/30/2017
Land and Rights of Way	\$ 15,471,540	\$ -	\$ -	\$ 15,471,540
Water Distribution System	91,067,482	-	-	91,067,482
Buildings & Improvements	935,492	7,885	-	943,377
Equipment and Vehicles	549,266	81,424	(21,799)	608,891
Projects in Progress	4,719,272	2,168,341	-	6,887,613
Accumulated Depreciation	(17,555,328)	(2,436,451)	21,799	(19,969,980)
	<u>95,187,724</u>	<u>(178,801)</u>	<u>-</u>	<u>95,008,923</u>
Water Lease Acquisition Costs	853,994	-	-	853,994
Less Accumulated Amortization	(745,185)	(80,156)	-	(825,341)
Total Property, Plant & Equipment and Lease Acquisition Costs (Net)	<u>\$ 95,296,533</u>	<u>\$ (258,957)</u>	<u>\$ -</u>	<u>\$ 95,037,576</u>

Land and Rights of Way as well as Projects in Progress are not depreciated.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

NOTE D -- BONDS PAYABLE

Following is a summary of the Corporation's long-term debt transactions for the year ended September 30, 2017:

	Balance 10/1/2016	Additions	(Payments)/ Amortization	Balance 9/30/2017
Revenue Bonds, Series 2001 Original Issue \$41,040,000 3.70% to 5.375%	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000
Less Unamortized Discount	(41,206)	-	-	(41,206)
Revenue Bonds, Series 2010 Original Issue \$22,140,000 3.00% to 4.75%	20,760,000	-	(485,000)	20,275,000
Less Unamortized Discount	(193,985)	-	13,318	(180,667)
Contract Revenue Bonds, Series 2012 Original Issue \$25,425,000 2.00% to 4.00%	24,260,000	-	(600,000)	23,660,000
Plus Unamortized Premium	195,430	-	(7,817)	187,613
Revenue Refunding Bonds, Series 2014 Original Issue \$6,275,000 2.00% to 3.5%	5,200,000	-	(520,000)	4,680,000
Plus Unamortized Premium	187,655	-	(20,851)	166,804
Revenue Refunding Bonds, Series 2015 Original Issue \$41,720,000 2.00% to 5.00%	41,025,000	-	(700,000)	40,325,000
Plus Unamortized Premium	1,888,555	-	(67,448)	1,821,107
Contract Revenue Bonds, Series 2016, TWDB SWIRFT Original Issue \$43,670,000 0.66% to 3.11%	-	43,670,000	-	43,670,000
Board Participation Program Series 2016 Original Issue \$22,830,000 3.19% to 3.88%	-	22,830,000	-	22,830,000
Less Current Maturities	<u>\$ 103,281,449</u>	<u>\$ 66,500,000</u>	<u>\$ (2,387,798)</u>	<u>\$ 167,393,651</u>
Net Long-Term Bonds Payable				<u>\$ 164,983,651</u>

SCHERTZ/SEGUN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

NOTE D -- BONDS PAYABLE (Continued)

The Corporation also entered into a Cost Allocation Agreement, along with the Cities of Schertz and Seguin, whereby the City of Schertz has agreed to fund 100% of the debt service for the bonds issued to fund the Guadalupe Project in exchange for delivery of sufficient water to Schertz. The agreement contains provisions for an annual review (with modifications as necessary), the possibility of other third-party users, and separate rates established for water produced by the project.

NOTE E -- COMMITMENTS

Leases -- Water Rights

The Corporation has entered into lease agreements with various land owners for rights of development, production, transportation, and use of ground water on the properties. In addition to incentive and acquisition costs (see Note A-10), the leases call for annual royalty payments based upon, at a minimum, the surface acres of the property times a royalty rate base amount (\$105 - \$125) adjusted for increases in the consumer price index. The minimum term of the leases is ten years, but if the Corporation continues the royalty payments, the leases remain in effect. Changes in maximum allowable production by the Gonzales County Underground Conservation District may decrease the future commitment for some leases.

Future minimum payments under the initial lease terms of the leases are as follows:

Year Ending September 30	
2018	\$ 1,824,545
2019	264,475
2020	21,995
	\$ 2,111,015

As of September 30, 2017, the Corporation has leased a total of 18,414 acre feet. Total estimated annual costs of \$2,273,765 are expected for the year ended September 30, 2018, assuming the leases remain in effect beyond the initial minimum term.

Contract Commitments

The Corporation had the following outstanding contract commitments as of September 30, 2017:

	Original Commitment	Incurred to Date	Outstanding Commitment
Consulting	\$ 97,400	\$ 33,000	\$ 64,400
Engineering	862,500	475,933	386,567
Improvements & Repairs	293,000	248,903	44,097
Totals	\$ 1,252,900	\$ 757,836	\$ 495,064

SCHERTZ/SEGUN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

NOTE D -- BONDS PAYABLE (Continued)

The Corporation has issued bonds to provide funds to build, improve, extend, enlarge, and repair the Corporation's utility system, fund a reserve, and pay the costs of bond issuance. The bond resolution pledges intergovernmental contract revenues from the cities of Schertz and Seguin to bondholders. Under the intergovernmental water supply contract, the participating governments are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service as operating expenses from their respective utility systems. The reserve fund requirement, which is average annual debt service, has been met with the purchase of a surety bond. As additional security for the bonds, the Corporation has established a reserve fund. The cash balance held in the reserve fund as of September 30, 2017 was \$1,297,887.

The total unamortized deferred loss on debt refunding is \$2,412,138 as of September 30, 2017 and is shown on the Statement of Net Position as a deferred outflow of resources.

The Corporation issued revenue bonds through the Board Participation Program with Texas Water Development Board in the amount of \$22,830,000 on November 1, 2016. The Corporation also issued revenue bonds through the Texas Water Development Board SWIRFT Project Financing in the amount of \$43,670,000 on November 1, 2016. The bonds were issued to fund development of a well field and water treatment plant known as the "Guadalupe Project" as well as develop a parallel pipeline. As of September 30, 2017, the Corporation has drawn \$350,000 of the total available. The remaining funds after issuance costs are held in escrow by the Texas Water Development Board in the Corporation's name (see Note B).

Annual Requirements to amortize all long-term debt outstanding as of September 30, 2017, including interest payments, are as follows:

Year Ending September 30	Principal	Interest	Total
2018	\$ 2,410,000	\$ 5,147,392	\$ 7,557,392
2019	3,685,000	5,071,164	8,756,164
2020	3,780,000	5,145,783	8,925,783
2021	3,865,000	5,042,869	8,907,869
2022	3,985,000	5,013,058	8,998,058
2023 - 2027	22,155,000	24,719,074	46,874,074
2028 - 2032	26,955,000	24,192,784	51,147,784
2033 - 2037	35,135,000	18,101,470	53,236,470
2038 - 2042	39,980,000	7,750,247	47,730,247
2043 - 2047	16,505,000	2,797,841	19,302,841
2048 - 2051	6,985,000	635,629	7,620,629
	\$ 165,440,000	\$ 103,617,311	\$ 269,057,311
Average Annual Requirements			\$ 6,171,891

NOTE E -- COMMITMENTS (Continued)

Gonzales County Underground Water Conservation District Mitigation Fund

The Corporation has entered into an agreement with Gonzales County Underground Water Conservation District (GCUWCD) effective March 16, 2010 to fund a Mitigation Fund (the "Fund") for the purpose of investigating and evaluating mitigation claims and implementing mitigation measures for qualifying wells in Western Gonzales County. Contributions to the Fund are in lieu of the Corporation's obligation to perform its own mitigation under GCUWCD's rules.

The Corporation's initial fund principal is \$30 per acre foot of water authorized to be produced and transported. The initial contribution was \$530,860 and was recognized in prior financial statements as operating expenses of the system. In addition, the Corporation will pay a negotiated export fee surcharge of \$0.0175 per 1,000 gallons of water exported each calendar year, except the export fee surcharge shall not be imposed during the initial 3-year period of the agreement while the Fund balance remains at or above \$250,000 as of each July 1<sup>st</sup>. As of July 1, 2016, the Fund balance fell below \$250,000 and the Corporation was responsible for making an additional payment in the amount of \$78,057.

Monitoring Well System Construction, Operations, and Maintenance Agreement

The Corporation has entered into an agreement with Gonzales County Underground Water Conservation District (GCUWCD) effective December 30, 2016 to fund the Corporation's percentage of a project (the "Project") for the construction of new monitoring wells in Gonzales County. Contributions to the Project are based on the number of monitoring wells that each contributing party is responsible for as determined in the agreement.

The Corporation's required contribution represents 21.05% of the total cost of the project and is equal to \$192,608. The total contribution will be paid in three installments related to the completion of each phase of the Project. The initial contribution related to Phase I was \$30,412 and was recognized during the year ended September 30, 2017.

San Antonio Water System Contract

The Corporation has entered into a Mutual Regional Water Supply Contract with San Antonio Water System (SAWS) whereby SAWS intends to deliver untreated groundwater to the Corporation, and the Corporation will deliver treated water to SAWS. The Corporation and SAWS have determined that significant efficiencies can be achieved through the agreement.

Pursuant to the agreement, SAWS has unconditionally agreed, on a take-or-pay basis, to pay the Corporation an amount equal to the debt service payments on the Contract Revenue Bonds, Series 2012. The water supply contract specifies that the agreement does not create any legal or equitable interest in the land or equipment to be purchased by the Corporation with the proceeds of the bonds. Under the take-or-pay agreement, SAWS will make monthly payments toward the debt service regardless of whether SAWS takes any water from the Corporation. For the year ended September 30, 2017, total payments received from SAWS for water treatment, water purchases and debt service were \$7,007,215.

NOTE F -- CONTINGENCIES

Contractual Contingencies

The Corporation has entered into contracts with the cities of Selma and Universal City (referred to as "Customers") to provide supplemental water to those cities' existing systems. The contracts call for connection fees in the amount of \$2,270,171 from each customer. The Corporation has agreed to provide a conditional right to each customer of 400 acres of land with water rights in the Carrizo aquifer well field in Gonzales County, owned by the Corporation. At the election of the Corporation, or in the event the Corporation dissolves, the title to 400 acres will be transferred to the customer. The Corporation's contingent commitment does not restrict the Corporation's right to buy and sell real estate as long as the Corporation's holdings in Gonzales County do not fall below the amount necessary to fulfill this obligation.

Litigation

The Corporation filed a lawsuit against the Post Oak Clean Green, Inc. (POCG) to prevent them from getting a permit and building a landfill in the aquifer recharge zone. As of the date of this report, the litigation is still ongoing, and a recommendation from the State Office of Administrative Hearings Judge to the Texas Commission on Environmental Quality is expected this summer. Management is of the opinion that any proceedings known to exist as of September 30, 2017 are not likely to have a material adverse effect on the Corporation's financial position.

Subsequent to year end, the Corporation filed a lawsuit against Centerpoint Energy as a result of damages to the Corporation's pipeline. As of the date of this report, an agreed scheduling order has been developed.

NOTE G -- RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and other claims of various natures. The Corporation contracts with the Texas Municipal League (TML), through the City of Seguin, to provide insurance coverage for property and casualty. The provider is a multi-employer group that provides a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by TML. Liability for the Corporation is generally limited to the contributed amounts.

NOTE H -- MANAGEMENT SERVICES AGREEMENT

The Corporation operates under a Management Services Agreement with the City of Seguin whereby the City provides all financial administrative duties (including bookkeeping and record retention, purchasing, and monitoring contracts approved by the Board or General Manager) on a cost reimbursement basis. In addition, all personnel of the Corporation are employees of the City of Seguin and participate in and are subject to City policies and benefits, with the exception of the General Manager, who is an employee of the City of Schertz.

SCHERTZ/SEGWIN LOCAL GOVERNMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017 AND 2016

NOTE H -- MANAGEMENT SERVICES AGREEMENT (Continued)

The Corporation also provides financial and administrative duties (including bookkeeping and record retention, purchasing, and monitoring contracts approved by the Board or General Manager) on a cost reimbursement basis under a Management Services Agreement with the Cibolo Valley Local Government Corporation. Funds received from the Cibolo Valley Local Government Corporation for Management Services have been shown as operating revenue on the Statement of Revenues, Expenses, and Changes in Net Position.



**APPENDIX F**

**Certain Provisions of the Resolution**

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## APPENDIX F

### CERTAIN PROVISIONS OF THE RESOLUTION

The following constitutes a summary of certain selected provisions of the Resolution. This summary should be qualified by reference to other provisions of the Resolution referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Resolution in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Resolution, a copy of which may be obtained from the City.

SECTION 9: Definitions. For all purposes of this Resolution (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 36 and 53 of this Resolution have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Resolution to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Resolution as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Resolution as a whole and not to any particular Section or other subdivision.

A. The term *Additional New Series Bonds* shall mean (i) any bonds, notes, warrants, or any similar obligations hereafter issued by the Corporation that are payable wholly or in part from and equally and ratably secured by a lien and pledge of the Bond Payment portion of the Annual Payments received by the Corporation from the Cities under the Contract, which lien and pledge is immediately junior and inferior to the lien thereon and pledge thereof securing the repayment of the currently outstanding Priority Bonds until such time as no Priority Bonds remain Outstanding (at which point all New Series Bonds will enjoy a first and prior lien on and pledge of the Bond Payment portion of the Annual Payments), but senior and superior to the lien thereon and pledge thereof of any additional Corporation obligations secured by and payable from a lien on and pledge of the Bond Payment portion of the Annual Payments that is subordinate and inferior to the lien thereon and pledge thereof securing the repayment of any New Series Bonds and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a lien on and pledge of the of the Bond Payment portion of the Annual Payments received by the Corporation from the Cities under the Contract, as determined by the Corporation in accordance with applicable law, on parity with the lien thereon and pledge thereof securing the other New Series Bonds then-Outstanding.

B. The term *Additional Priority Bonds* shall mean any bonds, notes, warrants, or other evidences of indebtedness (including those issued for the purpose of refunding previously issued bonds, notes, or other evidences of indebtedness) which the Corporation reserved the right to issue under the Priority Bonds Resolutions the repayment of which is secured by a first and prior lien on and pledge of the Bond Payment portion of the Annual Payments received by the Corporation from the Cities under the Contract, which lien and pledge is on parity with the lien thereon and pledge thereof securing the repayment of the Priority Bonds.

C. The term *Additional Obligations* shall mean collectively, any Prior Lien Obligations, Junior Lien Obligations, or Inferior Lien Obligations hereafter issued by the Corporation.

D. The term *Annual Payments* shall mean the payments, including the Bond Payment, Operation and Maintenance Expenses, and Overhead Expenses, that the Corporation expects to receive from the Cities pursuant to the terms of the Contract.

E. The term *Authorized Officials* shall mean the Board President, Board Secretary, and/or the General Manager.

F. The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirements on all outstanding Priority Bonds and New Series Bonds when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirement by the number of Fiscal Years then remaining before Stated Maturity of such Priority Bonds and New Series Bonds. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

G. The term *BAM* shall mean Build America Mutual Assurance Company, or any successor thereto.

H. The term *Bond Fund* shall mean the special Fund or account created and established by the provisions of Section 13 of this Resolution.

I. The term *Bond Payment* shall have the meaning ascribed thereto in the Contract.

J. The term *Bonds* shall mean the \$\_\_\_\_\_ “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE REFUNDING BONDS, NEW SERIES 2018”, dated November 15, 2018, authorized by this Resolution and issued by the Corporation as the initial series of New Series Bonds.

K. The term *Closing Date* shall mean the date of physical delivery of the Initial Bonds for the payment in full by the Purchasers.

L. The term *Contract* shall mean the Regional Water Supply Contract, dated as of November 15, 1999, together with amendments and supplements thereto (which by the term of such instrument is designated as a supplement to such Contract), a conformed copy of such Contract being attached hereto as Exhibit G for the purposes of identification.

M. The term *Corporation* shall mean Schertz/Seguin Local Government Corporation and any other nonprofit corporation, public agency, or other entity succeeding to the powers, rights, privileges and functions of the Corporation and, when appropriate, the Board of Directors of the Corporation.

N. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement,

insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the Corporation as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Bond.

O. The term *Credit Facility* shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations under and pursuant to Texas law, or (ii) a letter or line of credit issued by any financial institution authorized under applicable Texas law to deliver such types of financial instrument.

P. The term *Credit Provider* shall mean any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

Q. The term *Debt Service Requirements* shall mean 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 Corporation 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 such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds 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 rate of interest then being paid on United States Treasury obligations of like maturity and (ii) 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 Credit Agreement in the form of an 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 Corporation under such hedge agreement from the amounts payable by the Corporation under such hedge agreement and such obligations.

R. The term *Depository* shall mean an official depository bank of the Corporation.

S. The term *Fiscal Year* shall mean the twelve month accounting period used by the Corporation in connection with the operation of the System, currently ending on September 30<sup>th</sup> of each year, which may be any twelve consecutive month period established by the Corporation, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

T. The term *Government Securities*, as used herein, shall mean (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 of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

U. The term *Gross Revenues* shall mean all income and increment, including, but not limited to, any revenues, income, or connection fees which may be derived from the ownership and/or operation of the System as it is purchased, constructed or otherwise acquired, including payments pursuant to the Contract (excluding the Bond Payment portion of the Annual Payments), but shall not mean the income and increment derived from a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities which under the terms of the authorizing resolution(s) or order(s) that may be pledged for the requirements of the Corporation's Special Project Bonds issued particularly to finance certain facilities (even though the facilities to be financed with the Special Project Bonds are physically connected to the System) needed in performing any such contract or contracts; provided, however, that the Board of Directors of the Corporation may utilize any revenues, including those generated by the Contract, in excess of the debt service requirements on the New Series Bonds for any lawful purpose in accordance with this Resolution and the Contract.

V. The term *Holder* or *Holder*s shall mean the registered owner, whose name appears in the Security Register, for any Bond.

W. The term *Inferior Lien Obligations* shall mean (i) any bonds, notes, warrants, or other obligations hereafter issued by the Corporation payable wholly or in part from a pledge of and lien on Net Revenues of the System, all as further provided in Section 21 of this Resolution, which is subordinate and inferior to the lien on and pledge thereof securing the payment of any Prior Lien Obligations or Junior Lien Obligations hereafter issued by the Corporation, and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Board of Directors in accordance with any applicable law.

X. The term *Insurance Policy* shall mean the municipal bond guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

Y. The term *Insured Obligations* shall mean those Bonds covered by the Policy, for so long as the same remains valid, in force, and in effect.

Z. The term *Insurer* or *BAM* shall mean Build America Mutual Assurance Company, or any successor thereto.

AA. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being February 1 and August 1 of each year, commencing February 1, 2019, while any of the Bonds remain Outstanding.

BB. The term *Junior Lien Obligations* shall mean (i) any bonds, notes, warrants, or any similar obligations hereafter issued by the Corporation that are payable wholly or in part from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System, all as further provided in Section 21 of this Resolution and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues as determined by the Board of Directors in accordance with any applicable law.

CC. The term *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, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (*Prime Rate*) (any change in such Prime Rate to be effective on the date such change is publically announced by JPMorgan Chase Bank, N.A.) plus 3%, and (ii) the then applicable highest rate of interest on the Insured Obligations and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates, including Chapter 1204, as amended, Texas Government Code. In the event JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as BAM, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to BAM shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

DD. The term *Maintenance and Operating Expenses* shall mean the expenses necessary to provide for the administration, efficient operation and adequate maintenance of the Corporation's System, including the cost of purchasing water, paying necessary wages, salaries, and benefits, the acquisition of property and materials necessary to maintain the System in good condition and to operate it efficiently, together with such other costs and expenses as may now or hereafter be defined by law as proper maintenance and operating expenses of the System, including Operation and Maintenance Expenses and Overhead Expenses (each as defined in the Contracts).

EE. The term *Operation and Maintenance Expenses* shall have the meaning ascribed thereto in the Contract.

FF. The term *Overhead Expenses* shall have the meaning ascribed thereto in the Contract.

GG. The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

HH. The term *New Series Bonds* shall mean the New Series Bonds heretofore issued, the Bonds, and any Additional New Series Bonds hereafter issued, designated as:

(1) \$6,275,000 “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE REFUNDING BONDS, NEW SERIES 2014”, dated September 1, 2014;

(2) \$41,720,000 “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE IMPROVEMENT AND REFUNDING BONDS, NEW SERIES 2015”, dated December 1, 2014;

(3) \$43,645,000 “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE BONDS, NEW SERIES 2016 (TEXAS WATER DEVELOPMENT BOARD SWIRFT PROJECT FINANCING)”, dated August 1, 2016; and

(4) 22,830,000 “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION TEXAS WATER DEVELOPMENT BOARD PARTICIPATION PROGRAM 2016”, dated November 1, 2016.

II. The term *Outstanding* shall mean when used in this Resolution with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Resolution, except:

(1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds for which payment has been duly provided by the Corporation in accordance with the provisions of Section 38 of this Resolution by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Securities, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Resolution or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) 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 34 of this Resolution.

JJ. The term *Policy* shall mean the Municipal Bond Insurance Policy issued by BAM that guarantees the scheduled payment of principal of and interest on the Bonds when due.

KK. The term *Prior Lien Obligations* shall mean (i) any bonds, notes, warrants, or other evidences of indebtedness which the Corporation reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 20 of this Resolution and which are equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues of the System and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a first and prior lien on and pledge of the Net Revenues as determined by the Board in accordance with applicable law.

LL. The term *Priority Bonds* shall mean those obligations heretofore issued by the Corporation and that remain Outstanding after the issuance of the Bonds and the refunding of the Refunded Obligations, which Outstanding obligations are payable from and secured by a first and prior lien on and pledge of the Bond Payment portion of the Annual Payments, which lien and pledge is senior and superior to the lien thereon and pledge thereof securing the repayment of the New Series Bonds, being the:

(1) \$41,040,000 “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE BONDS, SERIES 2001”, dated February 1, 2001.

MM. The term *Purchasers* shall mean the initial purchaser or purchasers of the Bonds named in Section 35 of this Resolution.

NN. The term *Rating Agency* shall mean any nationally recognized securities rating agency which has assigned a rating to the Bonds.

OO. The term *Renewal and Replacement Fund* shall mean the special fund, creation and establishment under the Priority Bonds Resolutions of which is recognized by the Corporation in Section 15 of this Resolution.

PP. The term *Resolution* shall mean this resolution adopted by the Board on September 20, 2018.

QQ. The term *Special Project Bonds* shall mean bonds which the Corporation expressly reserves the right to issue in Section 22 of this Resolution.

RR. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on February 1 of each year, as set forth in Section 2 of this Resolution.

SS. The term *System* shall mean the works, improvements, facilities, plants, equipments, appliances, property, easements, leaseholds, licenses, privileges, right of use or enjoyment, contract rights or other interests in property comprising the utility system of the Corporation, including the Project, now owned or to be hereafter purchased, constructed or otherwise acquired whether by deed, contract or otherwise, together with any additions or extensions thereto or improvements and replacements thereof, or the utility system of any other entity to which the Corporation has contractual rights of use, except the facilities which the Corporation may purchase or acquire with the proceeds of the sale of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with the System.

TT. The term *TWDB* shall mean the Texas Water Development Board or any successor entity thereof.

UU. The term *TWDB Program* shall have the meaning ascribed in Section 59 of the Resolution.

SECTION 10: Pledge of the Bond Payment Portion of the Annual Payments; Availability of Net Revenues for Payment; Perfection of Security Interest.

A. The Corporation hereby covenants and agrees that the Bond Payment portion of the Annual Payments, subject (but only subject) to the first and prior lien thereon and pledge thereof securing the repayment of the currently outstanding Priority Bonds, is hereby irrevocably pledged to the payment and security of the New Series Bonds including the establishment and maintenance of the special funds or accounts created and established for the payment and security thereof, as hereinafter provided. It is hereby resolved that the New Series Bonds, and the interest thereon, shall constitute a lien on and pledge of the Bond Payment portion of the Annual Payments (subject only to the first and prior lien thereon and pledge thereof securing the repayment of the currently outstanding Priority Bonds) and shall be valid and binding without any physical delivery thereof or further act by the Corporation. This lien on the Bond Payment portion of the Annual Payments for the payment and security of the New Series Bonds, as heretofore described, shall be subject only to the first and prior lien thereon and pledge thereof securing the currently outstanding Priority Bonds and, at such time as no Priority Bonds are Outstanding, the lien on and pledge of the Bond Payment Portion of the Annual Payments securing the repayment of the New Series Bonds hereby created shall be elevated to a first and prior lien position such that this lien and pledge shall be prior in right and claim as to any other indebtedness, liability, or obligation of the Corporation or the System.

B. As an additional source of payment of debt service on the New Series Bonds, but not pledged as additional security therefor, the Corporation hereby reserves the right to utilize its Net Revenues for such lawful purpose, but any use of Net Revenues for the payment of New Series Bonds debt service shall be subject to the prior lien on and pledge of the Net Revenues securing the payment of any Additional Obligations hereafter issued by the Corporation.

C. Chapter 1208, as amended, Texas Government Code applies to the issuance of the New Series Bonds and the pledge of Bond Payment portion of the Annual Payments granted by the Corporation under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the New Series Bonds are outstanding and unpaid such that the pledge of the Bond Payment portion of the Annual Payments granted by the Corporation 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 the New Series Bonds the perfection of the security interest in this pledge, the Corporation 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 this pledge to occur.

SECTION 11: Rates and Charges. For the benefit of the Holders of the New Series Bonds and in addition to all provisions and covenants in the laws of the State of Texas and in this Resolution, the Corporation hereby expressly stipulates and agrees, while any of the New Series Bonds are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:



A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Prior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Prior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on and pledge of the Net Revenues of the System;

C. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Junior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a junior and inferior lien on and pledge of the Net Revenues of the System;

D. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Inferior Lien Obligations hereafter issued by the Corporation and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Inferior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a subordinate and inferior lien on and pledge of the Net Revenues of the System;

E. To produce Net Revenues, together with any other lawfully available funds, including the Bond Payment portion of the Annual Payments, to pay the principal of and interest on the currently outstanding Priority Bonds as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account, including the Priority Bonds' debt service and debt service reserve funds and the Renewal and Replacement Fund heretofore created and established for the payment and security of the Priority Bonds; and

F. To produce Net Revenues, together with any other lawfully available funds, including the Bond Payment portion of the Annual Payments, to pay the principal of and interest on the New Series Bonds as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account, including the Bond Fund created herein and any debt service reserve fund hereafter created as additional security for any Additional New Series Bonds, created and established for the payment and security of the New Series Bonds.

SECTION 12: System Fund. The Corporation hereby ratifies, confirms and herein assumes the application for so long as any New Series Bonds are Outstanding its prior covenants and agreements made in the Priority Bonds Resolutions that the Gross Revenues of the System shall be deposited, as collected and received, into a separate Fund or account previously created, established, and maintained with the Depository known as the "Schertz/Seguin Local Government Corporation Revenue Fund" (the *System Fund*) and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the Corporation. The Corporation covenants that the Overhead Expenses and Operation and Maintenance Expenses (each as defined in the

Contract) shall be deposited upon receipt by the Corporation into the System Fund. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

- FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, to be a first charge on and claim against the Gross Revenues of the System.
- SECOND: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Prior Lien Obligations hereafter issued by the Corporation as the same become due and payable.
- THIRD: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Junior Lien Obligations hereafter issued by the Corporation as the same become due and payable.
- FOURTH: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Inferior Lien Obligations hereafter issued by the Corporation as the same become due and payable.
- FIFTH: to the payment of the amounts that must be deposited in any special funds or accounts, including the debt service and debt service reserve funds and the Renewal and Replacement Fund created and established for the payment and security of the currently outstanding Priority Bonds.
- SIXTH: to the payment of the amounts that must be deposited in any special funds or accounts, including the Bond Fund created herein and any debt service reserve fund hereafter created as additional security for any Additional New Series Bonds, created and established for the payment and security of the New Series Bonds.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Corporation purpose now or hereafter permitted by law.

SECTION 13: Bond Fund; Surplus Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the New Series Bonds as the same become due and payable, the Corporation agrees to maintain, at the Depository, a separate and special Fund or account previously created and known as the “Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, New Series Interest and Sinking Fund” (the *Bond Fund*). The Corporation covenants that the Bond Payment portion of the Annual Payments shall be deposited upon receipt by the Corporation into the Bond Fund. The Authorized Officials covenant that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Bond Payment portion of the Annual Payments an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the New Series

Bonds then falling due and payable, such deposits to pay maturing principal and accrued interest on the New Series Bonds to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on or before the tenth day of the month next following the delivery of the Bonds to the Purchasers. If the Bond Payment portion of the Annual Payments in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month. For the avoidance of doubt, and for purposes of clarity, the Bond Payment portion of the Annual Payments received by the Corporation from the Cities under the Contract shall be utilized by the Corporation, as received, in the following manner for so long as any Priority Bonds remain Outstanding:

- **FIRST:** to the payment of the amounts that must be deposited in any special funds or accounts, including the debt service and debt service reserve funds created and established for the payment and security of the currently outstanding Priority Bonds and the Renewal and Replacement Fund, in the times and in the amounts (if at all) specified in the Priority Bonds Resolutions.
- **SECOND:** to the payment of the amounts that must be deposited in any special funds or accounts, including the Bond Fund, created and established for the payment and security of the New Series Bonds (and including any debt service reserve fund hereafter created as additional security for any Additional New Series Bonds).

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the New Series Bonds shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund is equal to the amount required to fully pay and discharge all outstanding New Series Bonds (principal and interest) or (ii) the New Series Bonds are no longer Outstanding.

Accrued interest received from the Purchasers, as well as any Net Revenues deposited to the Bond Fund at the Corporation's discretion, shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Bond Payment portion of the Annual Payments. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Bond Payment portion of the Annual Payments.

**SECTION 14: Reserve Fund.** The Corporation hereby reserves the right to establish, at the time of issuance of any series of Additional New Series Bonds, a debt service reserve fund, as either a segregated fund created for the benefit of a particular series of Additional New Series Bonds or a combined fund applicable to all New Series Bonds at such time Outstanding, and to provide for the funding of any such debt service reserve fund in the manner (which may be in any manner then or thereafter permitted by applicable law) and amount as prescribed in the Corporation resolution authorizing the issuance of the series of Additional New Series Bonds in conjunction with which such reserve fund is created. No debt service reserve is created in connection with the issuance of the Bonds.

SECTION 15: Renewal and Replacement Fund. There has been previously created and established under the Priority Bonds Resolutions that there shall be maintained at the Depository, and accounted for separate and apart from all other funds of the Corporation a separate fund entitled the “Schertz/Seguin Local Government Corporation Contract Revenue Bonds Renewal and Replacement Fund” (the *Renewal and Replacement Fund*). The amount deposited initially into the Renewal and Replacement Fund from proceeds of the previously issued Priority Bonds was \$500,000.00 (the *Emergency Amount*) which amount may not be decreased while any Priority Bonds are Outstanding. The Renewal and Replacement Fund shall be used for the purpose of (1) paying the costs of improvements, enlargements, extensions, additions, replacements, or other capital expenditures related to the System, or (2) paying the costs of unexpected or extraordinary repairs or replacements of the System for which System funds are not available, or (3) paying unexpected or extraordinary expenses of operation and maintenance of the System for which System funds are not otherwise available, or (4) paying the debt service requirements on the currently outstanding Priority Bonds for which other System revenues are not available, or (5) for any other lawful purpose in support of the System.

Though it has not exercised such right with respect to the issuance of the Bonds, the Corporation hereby reserves the right to provide, in any prospective Corporation resolution authorizing the issuance of any series of Additional New Series Bonds, for an increase in the amount to be maintained from time to time in the Renewal and Replacement Fund and to provide that the amounts on deposit from time in the Renewal and Replacement Fund shall be available to pay debt service on the New Series Bonds *subject* to the prior use of any such proceeds to pay debt service on any Priority Bonds at such time Outstanding. Such Corporation resolution shall provide for the manner of funding any resultant increase in the amount to be accumulated and maintained in the Repair and Replacement Fund in a manner permitted under the Priority Bonds Resolutions and other applicable law and that is not in conflict with terms and provisions of this Resolution.

SECTION 16: Deficiencies - Excess Net Revenues. If on any occasion there shall not be a sufficient amount of the Bond Payment portion of the Annual Payments to make the required deposits into the Bond Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Bond Payment portion of the Annual Payments, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds or accounts during such month or months. Subject to making the required deposits to any funds or accounts securing any Additional Obligations or Priority Bonds, when and as required by any Corporation resolution authorizing a series of Additional Obligations or any Priority Bonds Resolution, respectively, the excess Net Revenues of the System may be used by the Corporation for any lawful purpose including, but not limited to, the payment of debt service on or redemption of any Bonds.

SECTION 17: Payment of Bonds. While any of the New Series Bonds are Outstanding, any Authorized Official shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the New Series Bonds as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the New Series Bonds at the close of the business day next preceding the date a debt service payment is due on the New Series Bonds.

SECTION 18: Investments. Funds held in any Fund or account created, established, or maintained pursuant to this Resolution shall, at the option of the Corporation, be invested as permitted by the provisions of the Public Funds Investment Act (codified at Chapter 2256, as amended, 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 the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the New Series Bonds.

SECTION 19: Issuance of Additional Bonds.

A. The Corporation hereby covenants to not issue any Additional Priority Bonds.

B. In addition to the right to issue bonds of inferior lien as authorized by the laws of this State, the Corporation reserves the right hereafter to issue Additional New Series Bonds. The Additional New Series Bonds, when issued, shall be payable from and secured by a lien on and pledge of the Bond Payment portion of the Annual Payments in the same manner and to the same extent as are the New Series Bonds at such time Outstanding and such Additional New Series Bonds and New Series Bonds at such time Outstanding shall in all respects be of equal dignity. The Additional New Series Bonds may be issued in one or more installments provided, however, that no Additional New Series Bonds, shall be issued unless and until the following conditions have been met:

(1) The Corporation is not then in default as to any covenant, condition or obligation prescribed in any Priority Bonds Resolution authorizing the issuance of Priority Bonds at such time outstanding and any resolution authorizing the issuance of the New Series Bonds at such time Outstanding or the Contract (including any amendment or supplement thereto).

(2) A consulting engineer certifies to the Corporation the need for an estimated amount of additional financing required for completion, expansion, enlargement or improvement of the Project, if new money bonds are being issued.

(3) The Cities shall have approved the resolution(s) authorizing the issuance of the Additional New Series Bonds as to form and content and acknowledged that the payment of principal of and interest on such Additional New Series Bonds is payable, in whole or in part, from the Bond Payment portion of the Annual Payments to be made by the Cities to the Corporation under and pursuant to the Contract.

(4) The Additional New Series Bonds are made to mature on February 1 or August 1 or both in each of the years in which they are scheduled to mature.

(5) The resolution authorizing the issuance of the Additional New Series Bonds provides for deposits to be made to the Bond Fund in amounts sufficient to pay the principal of and interest on such Additional New Series Bonds as the same become due.

Outstanding New Series Bonds may be refunded (pursuant to any law then available) upon such terms and conditions as the governing body of the Corporation may deem to the best interest of the Corporation.

**SECTION 20: Issuance of Prior Lien Obligations.** The Corporation also reserves the right to issue Prior Lien Obligations that are payable from and secured by a first and prior lien and pledge of the Net Revenues of the System. The Corporation covenants and agrees, however, it will not issue any Prior Lien Obligations unless:

A. Except for a refunding to cure a default, the Corporation is not then in default as to any covenant, condition or obligation prescribed by the resolutions authorizing the issuance of New Series Bonds.

B. Each of the funds created solely for the payment of principal of and interest on the then-outstanding Priority Bonds and any New Series Bonds contains the amounts of money then-required to be on deposit therein.

In addition, the Prior Lien Obligations may be refunded pursuant to any law then available upon such terms and conditions as the Board may deem to be in the best interest of the Corporation and its inhabitants.

**SECTION 21: Obligations of Inferior Lien and Pledge.** The Corporation hereby reserves the right to issue, at any time, obligations including, but not limited to, Junior Lien Obligations and Inferior Lien Obligations payable from and secured, in whole or in part, by a lien on and pledge of the Net Revenues of the System, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations hereafter issued by the Corporation as may be authorized by the laws of the State of Texas.

**SECTION 22: Special Project Bonds.** The Corporation further reserves the right to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of utility facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities, such bonds to be payable from and secured by the proceeds of such contract or contracts. The Corporation further reserves the right to refund such bonds and secure the payment of the debt service

requirements on the refunding bonds in the same manner or as otherwise permitted by the laws of the State.

SECTION 23: Maintenance of System - Insurance. The Corporation covenants, agrees, and affirms its covenants that while the New Series Bonds remain outstanding it will maintain and operate the System with all possible efficiency and maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State of Texas engaged in a similar type of business (which may include an adequate program of self-insurance); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State of Texas. All money received from losses under such insurance policies, other than public liability policies, shall be retained for the benefit of the holders of the New Series Bonds until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof shall be considered Maintenance and Operating Expenses. Nothing in this Resolution shall be construed as requiring the Corporation to expend any funds which are derived from sources other than the operation of the System but nothing herein shall be construed as preventing the Corporation from doing so.

SECTION 24: Records and Accounts - Annual Audit. The Corporation covenants, agrees, and affirms its covenants that so long as any of the New Series Bonds remain outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto as provided by applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The Corporation further agrees that following (and in no event later than 120 days after) the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. A copy of each annual audit shall be made publically available in the manner described in Section 53 hereof. Expenses incurred in making the annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses.

SECTION 25: Sale or Encumbrance of System. While any New Series Bonds remain Outstanding, the Corporation will not sell, dispose of or, except as permitted in Sections 18, 19, 20, 21, and 59, further encumber the System or any substantial part thereof; provided, however, that this provision shall not prevent the Corporation from disposing of any of the System which is being replaced or is deemed by the Corporation to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Any agreement pursuant to which the Corporation contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

SECTION 26: Competition. To the extent it legally may, the Corporation will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities.

SECTION 27: Special Covenants. The Corporation further covenants and agrees that:

A. Encumbrance and Sale.

(1) The Annual Payments and the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the Corporation except with respect to the currently outstanding Priority Bonds; and while any of the New Series Bonds are Outstanding, the Corporation will not, except as provided in this Resolution, additionally encumber any portion of the Annual Payments or the Net Revenues.

(2) While the New Series Bonds are Outstanding, and except as specifically permitted in Section 18, 19, 20, 21, and 59 of this Resolution, the Corporation shall not mortgage, pledge, encumber, sell, lease, or otherwise dispose of or impair its title to the System or any significant or substantial part thereof.

B. Title. Subject to the provisions of Section 59 of the Resolution, the Corporation or the Cities lawfully owns or will own and is or will be lawfully possessed of the lands or easements upon which its System is and will be located, and has or will purchase good and indefeasible estate in such lands in fee simple, or has or will lawfully obtain any necessary easements to operate the System, and it warrants that it has or will obtain and will defend, the title to all the aforesaid lands and easements for the benefit of the owners of the New Series Bonds against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Bond Payment portion of the Annual Payments to the payment of the New Series Bonds, in the manner prescribed herein, and that it has lawfully exercised such rights.

(i) Liens. The Corporation will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or its System, and it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge upon its System, provided, however, that no such tax, assessment, or charge, and that no such claims which might be or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the Corporation.

(ii) Performance. The Corporation will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in the Contract and in the resolutions authorizing the issuance of New Series Bonds, and in each and every New Series Bond and pay from the Bond Payment portion of the Annual Payments the principal of and interest on every New Series Bond (subject to the payment obligations relating to the currently outstanding Priority Bonds, as specified in the Priority Bonds Resolutions) on the dates and in the places and manner prescribed in such resolutions and New Series Bonds; and that it will, at the times and in the manner prescribed (and subject to the payment requirements applicable to the currently outstanding Priority Bonds, as specified in the Priority Bonds Resolutions), deposit or cause to be deposited from the Bond Payment portion of the Annual Payments the amounts required to be deposited into the Bond Fund; and the Holder of the Bonds may require the Corporation, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Resolution or any resolution authorizing the issuance of Additional New Series Bonds including, but



without limitation, the use and filing of mandamus proceedings, in any court or competent jurisdiction, against the Corporation, its officials, agents, and employees.

(iii) Legal Authority. The Corporation is duly authorized under the laws of the State of Texas to issue the Bonds; that all action on its part for the authorization and issuance of the Bonds has been duly and effectively taken, and the Bonds in the hands of the Holders thereof are and will be valid and enforceable special obligations of the Corporation in accordance with their terms.

(iv) Budget. The Corporation will prepare, adopt, and place into effect an annual budget (the *Annual Budget*) for operation and maintenance of the System for each Fiscal Year, including in each Annual Budget such items as are customarily and reasonably contained in a utility system budget under generally accepted accounting procedures.

(v) Permits. The Corporation will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the System and which have been obtained from any governmental agency; and the Corporation has or will obtain and keep in full force and effect all franchises, permits, authorizations, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.

SECTION 28: Limited Obligations of the Corporation. The Bonds are limited, special obligations of the Corporation payable from and equally and ratably secured, together with any Additional New Series Bonds hereafter issued by the Corporation, solely by a lien on and pledge of the Bond Payment portion of the Annual Payments at the level of priority specified in Section 10 hereof, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds from any funds raised or to be raised through taxation by the Corporation.

SECTION 29: Security of Funds. All money on deposit in the Funds or accounts for which this Resolution makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and money on deposit in such Funds or accounts shall be used only for the purposes permitted by this Resolution.

SECTION 30: Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the Corporation covenants and agrees particularly that in the event the Corporation (a) defaults in the payments to be made to the Bond Fund or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Resolution, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the Corporation and other officers of the Corporation to observe and perform any covenant, condition, or obligation prescribed in this Resolution or in the Contract. In addition, the Holders shall be entitled to exercise any rights of enforcement against the Cities, as provided in the Contract.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence

therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION 31: Notices to Holders Waiver. Wherever this Resolution provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first-class postage prepaid, to the address of each Holder appearing in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Holders. Where this Resolution provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

**APPENDIX G**

**Form of Legal Opinion of Bond Counsel**

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**DRAFT 10/24/18**

IN REGARD to the authorization and issuance of the “Schertz/Seguin Local Government Corporation Contract Revenue Refunding Bonds, New Series 2018” (the *Bonds*), dated November 15, 2018, in the principal amount of \$\_\_\_\_\_, we have reviewed the legality and validity of the issuance thereof by the Schertz/Seguin Local Government Corporation (the *Corporation*), which Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years of 2020 through 2041, unless 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 resolution (the *Resolution*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Resolution.

WE HAVE SERVED AS BOND COUNSEL for the Corporation solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas 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 Corporation or the Cities (as defined herein) or their respective utility systems. We have not assumed any responsibility with respect to the financial condition or capabilities of the Corporation or the Cities 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. Our role in connection with the Corporation’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Corporation in connection with the issuance of the Bonds, including the Resolution, the Regional Water Supply Contract dated as of November 15, 1999 (the *Contract*) between the Corporation, the City of Seguin, Texas (*Seguin*), and the City of Schertz, Texas (*Schertz*, and together with Seguin, the *Cities*), the Escrow Deposit Letter (the *Escrow Agreement*) between the Issuer and Zions Bancorporation, National Association, Houston, Texas (the *Escrow Agent*), and a sufficiency certificate (the *Certificate*) of SAMCO Capital Markets, Inc. as the Corporation’s co-financial advisor (the *Co-Financial Advisor*) concerning the sufficiency of the cash deposited with the Escrow Agent; (2) the legal opinions of the Schertz City Attorney, the Seguin City Attorney, and the General Counsel to the Corporation; (3) customary certifications and opinions of officials of the Corporation and the Cities and certificates executed by officers of the Corporation and the Cities relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Corporation, and to certain other facts solely within the knowledge and control of the Corporation and the Cities; and (4) such other documentation,

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**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas in connection with the authorization and issuance of “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE REFUNDING BONDS, NEW SERIES 2018”**

including an examination of the Bond executed and delivered initially by the Corporation, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (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), and that the outstanding obligations refunded, discharged, paid, and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, the resolution 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 Certificate of the Co-Financial Advisor concerning the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations 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 the Bonds have been duly authorized by the Corporation in compliance with the Constitution and laws of the State of Texas now in force, and the Bonds issued in compliance with the provisions of the Resolution are valid, legally binding and enforceable special obligations of the Corporation payable, together with any the currently outstanding New Series Bonds, solely from and equally and ratably secured by a lien on and pledge of the Bond Payment portion of the Annual Payments to be received by the Corporation from the Cities pursuant to the Contract that is junior and inferior to the lien thereon and pledge thereof securing the repayment of the currently outstanding Priority Bonds, together with certain other funds on deposit in the accounts established in the Resolution, 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 do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Corporation, except with respect to the Bond Payment portion of the Annual Payments. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation. In the Resolution, the Corporation retains the right to issue Additional New Series Bonds and Additional Obligations, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the Corporation and the Cities with the provisions of the Resolution and the Contract and in reliance upon the Certificate of the Co-Financial Advisor concerning the sufficiency of the amount

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas in connection with the authorization and issuance of “SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION CONTRACT REVENUE REFUNDING BONDS, NEW SERIES 2018”**

deposited to the Escrow Fund and the representations and certifications of the Corporation and the Cities 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.

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.

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