OFFICIAL STATEMENT

Dated October 9, 2019

Rating:
S&P: "AA"
(See "OTHER INFORMATION – Ratings" herein)

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel (identified below), interest on the Bonds (defined below) will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$6,425,000
CITY OF KILLEEN, TEXAS
(A political subdivision of the State of Texas located in Bell County)
WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2019

Dated Date: October 29, 2019 **Due: August 15, as shown on the inside cover page**
Interest Accrues from Date of Initial Delivery

PAYMENT TERMS . . . Interest on the $6,425,000 City of Killeen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2019 (the "Bonds") will accrue from the date of initial delivery, will be payable on February 15 and August 15 of each year commencing February 15, 2020 until stated maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("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 beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – Book-Entry-Only System"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapters 1207 and 1371 and Subchapter B of Chapter 1502, Texas Government Code, as amended, an ordinance authorizing the issuance of the Bonds adopted by the City Council of the City of Killeen, Texas (the "City") on September 24, 2019 and a Pricing Certificate executed on the date of sale of the Bonds evidencing final sale terms of the Bonds (collectively, with the Pricing Certificate authorizing the Bonds described herein, the "Bond Ordinance" or the "Ordinance"). The Bonds, together with the outstanding Parity Obligations (defined herein) and Additional Parity Obligations (defined herein) from time to time hereafter issued are secured by and payable from a first and prior lien on and pledge of the Net Revenues of the City's waterworks and sewer system (the "System"). The lien on and pledge of System Net Revenues securing the Parity Obligations was initially junior and subordinate to other City obligations secured by a first and prior lien on System revenues (the "Priority Obligations"), but because no Prior Obligations remain outstanding, and the City has covenanted in the Ordinance to not issue other obligations secured by a lien on and pledge of System revenues that is senior to the lien on and pledge of Net Revenues of the System securing the Parity Obligations, all Parity Obligations (including the Bonds) have elevated to and now enjoy a first and prior lien on and pledge of Net Revenues. As additional security, there has been established a Reserve Fund for the Bonds which shall be funded (but beginning only after Net Revenues for any fiscal year are less than 1.35 times the combined average Annual Debt Service Requirements on the Parity Obligations) in an amount at least equal to the average Annual Debt Service Requirements on the outstanding Parity Obligations. Due to the coverage currently maintained by the City, at the time of delivery of the Bonds, it is not anticipated that the Reserve Fund will be funded. The amount required to be on deposit in the Reserve Fund can, at the option of the City, be satisfied by the deposit of a surety bond or insurance policy. The City has received the right to issue additional obligations ("Parity Obligations") secured by a lien on such Net Revenues on parity with the Bonds. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS – Security for the Bonds").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) refunding certain outstanding obligations of the City to achieve a debt service savings (see "SCHEDULE I" herein) and (ii) paying the costs of issuance related thereto.

CUSIP PREFIX: 494224
MATURITY SCHEDULE
See Inside Front Cover

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof identified below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Austin, Texas (see "APPENDIX C – Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas.

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through the facilities of DTC on October 29, 2019.

SAMCO CAPITAL MARKETS, INC.

MATURITY SCHEDULE

Maturity (August 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers[(1)]
2023	$ 1,720,000	4.000%	1.260%	494224NG9
2024	2,920,000	4.000%	1.290%	494224NH7
***	***	***	***	***
2027	1,785,000	3.000%	1.480%	494224NJ3

(Interest accrues from the Date of Initial Delivery)

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

REDEMPTION . . . The Bonds are not subject to redemption prior to their stated maturities.

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This Official Statement, which includes the cover page, the Schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction. The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER 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 JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

THE CITY	The City of Killeen, Texas is a political subdivision located in Bell County, Texas and operating as a home-rule city under the laws of the State of Texas and a charter approved by voters in 1944, as amended. The City operates under the City Council/Manager form of government where the Mayor and seven Councilmembers are elected for staggered two-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The City is approximately 54.69 square miles in area (see "INTRODUCTION – Description of the City").
THE BONDS	The Bonds are issued as $6,425,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2019. The Bonds are issued as serial bonds maturing on August 15 in the years 2023, 2024 and 2027 (see "THE BONDS – Description of the Bonds").
PAYMENT OF INTEREST	Interest on the Bonds accrues from their date of initial delivery and is payable on February 15, 2020, and each February 15 and August 15 thereafter until maturity (see "THE BONDS – Description of the Bonds").
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapters 1207 and 1371 and Subchapter B of Chapter 1502, Texas Government Code, as amended, an ordinance authorizing the issuance of the Bonds adopted by the City Council of the City of Killeen, Texas (the "City") on September 24, 2019 and a Pricing Certificate executed on the date of sale of the Bonds evidencing final sale terms of the Bonds (collectively, with the Pricing Certificate authorizing the Bonds, the "Bond Ordinance" or "Ordinance"). See "THE BONDS – Authority for Issuance."
SECURITY	The Bonds, together with the outstanding Parity Obligations (defined herein) and Additional Parity Obligations (defined herein) from time to time hereafter issued are secured by and payable from a first and prior lien on and pledge of the Net Revenues of the City's waterworks and sewer system (the "System"). The lien on and pledge of System Net Revenues securing the Parity Obligations was initially junior and subordinate to other City obligations secured by a first and prior lien on System revenues (the "Priority Obligations"), but because no Prior Obligations remain outstanding, and the City has covenanted in the Ordinance to not issue other obligations secured by a lien on and pledge of System revenues that is senior to the lien on and pledge of Net Revenues of the System securing the Parity Obligations, all Parity Obligations (including the Bonds) have elevated to and now enjoy a first and prior lien on and pledge of Net Revenues. As additional security, there has been established a Reserve Fund the Bonds which shall be funded (but beginning only after Net Revenues for any fiscal year are less than 1.35 times the average Annual Debt Service Requirements on the Bonds) in an amount at least equal to the average Annual Debt Service Requirements on the Parity Obligations. Due to the coverage currently maintained by the City, at the time of delivery of the Bonds, it is not anticipated that the Reserve Fund for the Bonds will be funded. The amount required to be on deposit in the Reserve Fund can, at the option of the City, be satisfied by the deposit of a surety bond or insurance policy. The City has received the right to issue additional obligations secured by a lien on such Net Revenues on parity with the Bonds. **The City has not covenanted or obligated itself to pay the Bonds from money raised or to be raised from taxation** (see "THE BONDS – Security for the Bonds").
REDEMPTION	The Bonds are not subject to redemption prior to their stated maturities (see "THE BONDS – Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used for (i) refunding certain outstanding obligations of the City to achieve a debt service savings (see "SCHEDULE I" herein) and (ii) paying the costs of issuance related thereto.

QUALIFIED TAX-EXEMPT OBLIGATIONS............................ The City has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2019 is not reasonably expected to exceed $10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

RATINGS .... The Bonds have been rated "AA" by S&P Global Ratings ("S&P"). The City also has various issues outstanding which are rated based on municipal bond insurance policies provided by various commercial insurance companies. The City's presently outstanding Parity Obligations of the System currently have an underlying rating of "AA" by S&P and "AA-" by Fitch Ratings, Inc. ("Fitch"). An application for a rating on the Bonds has not been submitted to Fitch (see "OTHER INFORMATION – Ratings").

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

PAYMENT RECORD .... The City has never defaulted in the payment of its System indebtedness.

SELECTED CITY INDICES

Fiscal Year Ending 9/30	Estimated City Population	Water Usage (MGD) Average Day Usage	Peak Day Usage	Total Usage	Net Revenue Available for Debt Service(1)	Average Annual Debt Service Requirements	Debt Service Coverage
2015	140,806	15	22	5,585	$ 12,637,612	$ 4,034,106	3.13
2016	143,400	14	25	5,312	13,388,994	3,850,043	3.48
2017	144,930	15	25	5,346	19,327,426	3,643,090	5.31
2018	145,935	15	25	5,437	16,321,172	3,474,904	4.70
2019	150,857	14	25	5,045	15,334,881	3,282,348	4.67

(1) Historical Net Revenue Available for Debt Service includes amounts required to pay debt service on any outstanding Parity Obligations. The Bonds are issued as Parity Obligations secured by a first lien on Net Revenues of the System. See "THE BONDS – Security for the Bonds."

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Term Expires
Jose L. Segarra Mayor Councilmember, District No. 2	May 2020
Jim Kilpatrick Mayor Pro Tem Councilmember, District No. 3	May 2021
Butch Menking Councilmember at Large	May 2020
Juan Rivera Councilmember at Large	May 2020
Gregory Johnson Councilmember at Large	May 2020
Shirley Fleming Councilmember, District No. 1	May 2021
Debbie Nash-King Councilmember, District No. 2	May 2021
Steve Harris Councilmember, District No. 4	May 2021

APPOINTED OFFICIALS

Name	Position
David Ellison[(1)]	Interim City Manager
Jonathan Locke, CPA	Executive Director of Finance
Judith Tangalin	Assistant Director of Finance
Lucy Aldrich	City Secretary

(1) Ronald Olson has retired as City Manager effective October 1, 2019. Mr. David Ellison is serving as interim City Manager until a permanent replacement is identified.

CONSULTANTS AND ADVISORS

Auditors .... Belt Harris Pechacek, LLLP
Houston, Texas

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

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

For additional information regarding the City, please contact:

Jonathan Locke, CPA Executive Director of Finance City of Killeen 802 N. Second Street Building E, Suite B Killeen, Texas 76541 (254) 501-7730	or	Dan Wegmiller Managing Director Specialized Public Finance Inc. 248 Addie Roy Road Suite B-103 Austin, Texas 78746 (512) 275-7300

OFFICIAL STATEMENT
RELATING TO

$6,425,000
CITY OF KILLEEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of the $6,425,000 City of Killeen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2019 (the "Bonds"). The Bonds are being issued pursuant to an ordinance authorizing the issuance of the Bonds approved by the City Council on September 24, 2019 and a Pricing Certificate executed on the date of sale of the Bonds evidencing final sale terms of the Bonds (the ordinance and the Pricing Certificate for the Bonds are referred to herein collectively as the "Bond Ordinance" or the "Ordinance"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State. The City operates as a home-rule City under the City Council/Manager form of government with a City Council comprised of the Mayor and seven Councilmembers. The term of office is two years with the terms of the Mayor and of three Councilmembers expiring in even-numbered years and the terms of the other four Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, EMS and fire protection), highways and streets, water and sanitary sewer utilities, library, public improvements, planning and zoning, and general administrative services. The estimated 2019 population is 150,857. The City covers approximately 54.69 square miles.

PLAN OF FINANCE

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) refunding certain outstanding obligations (the "Refunded Bonds") of the City to achieve a debt service savings (see "SCHEDULE I" herein) and (ii) paying the costs of issuance related thereto.

REFUNDED BONDS . . . The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the City, the City will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption date.

Specialized Public Finance Inc., in its capacity as Financial Advisor to the City, will certify as to the sufficiency (such certification, the "Sufficiency Certificate") of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. In certain instances, such cash may be invested in direct obligations of the United States which mature on or before any redemption date. The cash and any investments will not be available to pay principal of or interest on the Bonds.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Bonds in accordance with applicable law and thereafter the City will have no further responsibility with respect to the payment of such Refunded Bonds including any subsequent insufficiency in the Escrow Fund. It is the opinion of Bond Counsel in reliance upon the Sufficiency Certificate that, as a result of such defeasance, the Refunded Bonds will no longer be payable from the pledge of Net Revenues of the System made under the ordinance authorizing their issuance but will be payable solely from the cash held for such purpose by the Escrow Agent and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the City and thereafter the City will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds including any insufficiency therein caused by failures of the Escrow Agent to receive payment when due on any investments.

The City 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 Bonds, if for any reason, the cash balance on deposit or scheduled to be on deposit in the Escrow Fund should be insufficient to make such payment.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated October 29, 2019 and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will accrue from the date of initial delivery and will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2020.

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

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and the general laws of the State, including particularly Chapters 1207 and 1371 and Subchapter B of Chapter 1502, Texas Government Code, as amended, and the Ordinance.

SECURITY FOR THE BONDS . . . The Bonds, together with the outstanding Parity Obligations (defined herein) and Additional Parity Obligations (defined herein) from time to time hereafter issued are secured by and payable from a first and prior lien on and pledge of the Net Revenues of the City's waterworks and sewer system (the "System"). The lien on and pledge of System Net Revenues securing the Parity Obligations was initially junior and subordinate to other City obligations secured by a first and prior lien on System revenues (the "Priority Obligations"), but because no Prior Obligations remain outstanding, and the City has covenanted in the Ordinance to not issue other obligations secured by a lien on and pledge of System revenues that is senior to the lien on and pledge of Net Revenues of the System securing the Parity Obligations, all Parity Obligations (including the Bonds) have elevated to and now enjoy a first and prior lien on and pledge of Net Revenues.

As additional security, there has been established a Reserve Fund for the Parity Obligations which shall be funded (but beginning only after Net Revenues for any fiscal year are less than 1.35 times the combined average Annual Debt Service Requirements on any outstanding Parity Obligations (hereinafter defined)) in an amount at least equal to the average Annual Debt Service Requirements on the Parity Obligations. Due to the coverage currently maintained by the City (see Table 7 entitled "Coverage and Fund Balances"), at the time of delivery of the Bonds, it is not anticipated that the Reserve Fund will be funded. The amount required to be on deposit in the Reserve Fund can, at the option of the City, be satisfied by the deposit of a surety bond or insurance policy. The City has reserved the right to issue additional obligations ("Additional Parity Obligations") secured by a lien on such Net Revenues on parity with the Bonds and the other outstanding City obligations secured by a parity lien on and pledge of the Net Revenues of the System (the "Parity Obligations"). Maintenance and operating expenses include contractual payments which under State laws and their provisions are established as operating expenses. The Parity Obligations, including the Bonds, are not a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Bond Ordinance does not create a lien or mortgage on the System and any judgment against the City may not be enforced by levy and execution against any property owned by the City, except the Net Revenues.

RESERVE FUND AND SURETY BONDS . . . If Net Revenues for any fiscal year are less than 1.35 times the average Annual Debt Service Requirements on the Parity Obligations, a reserve fund will be established to further secure any and all Parity Obligations in an amount equal to all or part of the average annual principal and interest payments required of any Parity Obligations. Historically, the City has fully funded its reserve fund for System obligations with a surety bond and may also utilize this practice in the future for the Bonds and any Parity Obligations in the event that the City is required to fund the Reserve Fund for these obligations. Any reserve fund for any Parity Obligations (including the Bonds) will be maintained as a continuing reserve to be used only (1) to prevent deficiencies in the payment of the principal of or interest on any Parity Obligations resulting from the amounts in the Interest and Sinking Fund being insufficient to pay said principal and interest as the same become due and (2) to make any subrogation payment the City is obligated to make from Pledged Revenues with respect to a surety bond. If on any interest or principal payment date for any Parity Obligations moneys in the Interest and Sinking Fund are insufficient to pay the principal of and interest on any Parity Obligations then due, then there shall be drawn on a surety bond, to the extent available or acquired, an amount equal to such deficiency in the Interest and Sinking Fund relating to any Parity Obligations to be used solely to pay principal of and interest on the Parity Obligations then due (see "SELECTED PROVISIONS OF THE ORDINANCE – Reserve Fund.")

In the event the amount on deposit or credited to the Reserve Fund exceeds the amount of the related Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Reserve Fund have been expended. In the event that the amount on deposit in, or credited to the Reserve Fund, in addition to the amount available under the related Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument, draws on that Surety Bond and such other funding instrument shall be made on a pro rata basis to fund the insufficiency.

Any Surety Bond will not insure against nonpayment caused by the insolvency or negligence of the Paying Agent/Registrar.

PLEDGED REVENUES . . . All of the Net Revenues of the System, with the exception of those in excess of the amounts required to establish and maintain the Funds provided in the Ordinance, are irrevocably pledged for the principal of and interest on the Parity Obligations, including the Bonds and the establishment and maintenance of any Reserve Fund for the Parity Obligations. As a result of no Prior Obligations remaining outstanding, and the City having covenanted in the Ordinance to not issue other obligations secured by a lien on and pledge of System revenues that is senior to the lien on and pledge of Net Revenues of the System securing the Parity Obligations, all Parity Obligations (including the Bonds) have elevated to and now enjoy a first and prior lien on and pledge of Net Revenues as security for their repayment.

FLOW OF FUNDS . . . The flow of funds of the System requires that all revenues of the System be applied in sequence to: (i) payment of all reasonable and proper expenses of operating and maintaining the System; (ii) payment of amounts required to be deposited and credited to the Interest and Sinking Fund (as defined in the Ordinance) to meet all financial obligations of the City related to the Bonds, any Parity Obligations outstanding, and any Additional Parity Obligations hereafter issued; (iii) to the payment of all amounts required to be deposited and credited to the Reserve Fund pursuant to the Parity Obligations ordinances; (iv) to any other fund, account, or subaccount to the extent required pursuant to the provisions of any Parity Obligations ordinance; (v) to any other fund, account, or subaccount to the extent required by any ordinances pursuant to which subordinate debt is issued; and (vi) to any other City purpose permitted by law. See "SELECTED PROVISIONS OF THE ORDINANCE" herein.

REDEMPTION . . . The Bonds are not subject to redemption prior to their stated maturities.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, 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's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

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

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

Purchases of 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, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the

Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, 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 any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for determining the party to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (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 City's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Bonds or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when payment of the principal amount plus interest accrued on the Bonds to their due date (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City 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, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for any purpose, including the application of any limitation on indebtedness. 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 City to take any action amending the terms of the Bonds are extinguished.

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

Sources of Funds:	
Par Amount of Bonds	$ 6,425,000.00
Reoffering Premium	739,750.05
Total Sources of Funds	$ 7,164,750.05
Uses of Funds:	
Deposit to Escrow Fund	$ 7,033,396.25
Underwriter's Discount	45,173.24
Deposit to Interest and Sinking Fund	4,057.12
Costs of Issuance	82,123.44
Total Uses of Funds	$ 7,164,750.05

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THE SYSTEM

WATERWORKS SYSTEM . . . The City has a contract with Bell County Water Control and Improvement District No. 1 (the "District") to purchase treated water and the term of the contract is coterminous with the District's outstanding water system bonds and any additional bonds issued to provide additional water supply to the City. Currently the contract extends until 2029. The City pays the District a monthly rate based on a formula that provides for a rate based charge for operation and maintenance and a fixed charge for proportionate amounts for improvements and District water system debt service, bond reserve fund and contingency funds. Amounts payable by the City under the water supply contract with the District are an operating expense of the City's System and payable prior to debt service on the Bonds and any Additional Parity Obligations.

The City provides water and sanitary sewer services to approximately 43,784 residential and commercial customers. The water system has approximately 617 miles of water mains serving the City with nine elevated storage tanks and six ground storage tanks. Total overall storage capacity is 31.10 million gallons. The City's distribution system has the capacity to deliver 42.69 million gallons daily (MGD). Current peak demand is about 26 MGD; average daily usage is 16.04 MGD.

TABLE 1 – TEN LARGEST WATER CUSTOMERS

Customer	Water Usage (gallons)	% of Total Water Usage	Annual Aggregate Amount Billed
Killeen Independent School District	161,248,100	3.64%	$ 558,019
City of Killeen	70,028,800	1.58%	253,996
Metroplex Health Systems	30,951,200	0.70%	104,969
Stone Hill Apartments	21,089,900	0.48%	67,756
Premier Cemetery Service, Inc.	20,599,500	0.46%	67,566
Independence Place at Fort Hood	18,415,100	0.42%	57,783
Y&B Properties	12,739,000	0.29%	41,069
Cooper Mountain Apartments	12,062,200	0.27%	38,873
101 S. Twin Creek, LLC	11,333,500	0.26%	36,713
AMG Wood Fair dba Bridgewater	11,310,000	0.25%	37,100
	369,777,300	8.34%	

Note: % of Total Water Usage based on 4,435,598,566 gallons annual consumption (FYE 2018).

TABLE 2 – MONTHLY WATER RATES (EFFECTIVE 10-1-16)

The following rates apply to all classes of users inside the City limits.

Residential Users

Minimum charge for first 2,000 Gallons

Meter Size:	Residential and Multi-Family	Commercial
5/8" & 3/4"	$12.70	$13.15
1"	14.06	14.60
1 1/2"	17.47	18.13
2"	21.55	22.38
3"	31.09	32.30
4"	44.74	46.49
6"	79.83	82.98
8"	119.68	124.56
10"	167.40	174.06

Applicable to all meter sizes:		
2,001 to 25,000 gal/month	$3.17/1,000 gal	$3.28/1,000 gal
Over 25,000 gal/month	$3.78/1,000 gal	$3.28/1,000 gal

WASTEWATER SYSTEM . . . The City has a contract with the District for treatment of wastewater and the term of the contract is coterminous with the City's outstanding wastewater system bonds and any additional bonds issued to provide additional wastewater treatment capacity to the City. Currently, the contract extends out to 2024. The City pays the District a monthly rate (currently $0.79 per thousand gallons with an additional monthly fixed charge averaging $218,989) based on a formula that provides for a rate based charge for operation and maintenance and a fixed charge for proportionate amounts for improvements and District debt service, bond reserve funds and contingency funds. Amounts payable by the City under the wastewater treatment contract with the District are an operating expense of the City's System and are payable prior to debt service on the Prior Obligations, the Bonds and any Additional Parity Obligations. The District's treatment plant capacity at the present time is 21.0 MGD, with the City contracting for 13.5 MGD and Fort Hood Military Reservation contracting for 7.5 MGD. The District developed a second 6.0 MGD sewer treatment plant to serve the City which became operational in September 2006.

TABLE 3 – TEN LARGEST WASTEWATER CUSTOMERS

Customer	Amount Billed	Consumption (MGD)
Killeen Independent School District	$ 241,542	61,081,190
Central Texas College	146,841	40,529,020
Metroplex Health Systems	91,437	23,894,980
Stone Hill Apartments	62,178	16,313,760
Independence Place at Fort Hood	52,564	14,273,910
Y&B Properties	42,349	11,046,510
AMG Wood Fair DBA Bridgewater	39,552	10,193,400
Today's Car Wash	36,722	9,616,650
101 S. Twin Creek, LLC	35,184	9,234,540
Summerfield Community	49,140	9,203,200
	$ 797,509	

TABLE 4 – MONTHLY WASTEWATER RATES (EFFECTIVE 10-1-2016)

Residential	
0-3,000 gallons per month	$18.76 Minimum
Over 3,000 gallons per month	$3.80 per 1,000 gallons

*Not to exceed 10,000 gallons.

Multi-Family and Commercial*	
0-3,000 galloons per month	$19.15 Minimum
Over 3,000 gallons per month	$3.80 per 1,000 gallons

*Commercial wastewater over 3,000 gallons is calculated using a 90% flow factor.

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DEBT INFORMATION

TABLE 5 – SYSTEM DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	The Outstanding Obigations[(1)] Principal	Interest	Total	The Bonds[(2)] Principal	Interest	Total	Total Debt Service Requirements
2020	$ 3,870,000	$ 1,319,856	$ 5,189,856	$ -	$ 189,991	$ 189,991	$ 5,379,848
2021	4,060,000	1,165,056	5,225,056	-	239,150	239,150	5,464,206
2022	3,605,000	987,506	4,592,506	-	239,150	239,150	4,831,656
2023	2,020,000	816,956	2,836,956	1,720,000	239,150	1,959,150	4,796,106
2024	1,040,000	726,056	1,766,056	2,920,000	170,350	3,090,350	4,856,406
2025	2,785,000	684,456	3,469,456	-	53,550	53,550	3,523,006
2026	2,880,000	573,056	3,453,056	-	53,550	53,550	3,506,606
2027	1,185,000	429,056	1,614,056	1,785,000	53,550	1,838,550	3,452,606
2028	1,245,000	369,806	1,614,806	-	-	-	1,614,806
2029	1,305,000	307,556	1,612,556	-	-	-	1,612,556
2030	1,345,000	265,144	1,610,144	-	-	-	1,610,144
2031	1,395,000	219,750	1,614,750	-	-	-	1,614,750
2032	1,465,000	150,000	1,615,000	-	-	-	1,615,000
2033	1,535,000	76,750	1,611,750	-	-	-	1,611,750
	$ 29,735,000	$ 8,091,006	$ 37,826,006	$ 6,425,000	$ 1,238,441	$ 7,663,441	$ 45,489,448

(1) Excludes the Refunded Bonds. Outstanding Parity Obligations are secured by a first and prior lien on the Net Revenues of the System junior on Parity with the Bonds. See "THE BONDS – Security for the Bonds."

(2) Interest on the Bonds has been calculated at the rates on the inside cover page.

FINANCIAL INFORMATION

TABLE 6 - UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ending September 30, 2018	2017	2016	2015	2014
Revenues[(1)]:					
Charges for Services	$ 40,086,634	$ 39,409,416	$ 38,803,969	$ 37,007,157	$ 35,243,516
Interest Income	2,845	37,115	2,452	480,556	148,397
Total Revenues	$ 40,089,479	$ 39,446,531	$ 38,806,421	$ 37,487,713	$ 35,391,913
Expenditures[(2)]:					
Water Purchases	$ 7,938,535	$ 8,447,593	$ 7,810,794	$ 7,637,005	$ 7,467,995
Sewer Service Contract	6,053,339	6,366,159	7,183,054	6,594,789	6,297,470
Operating Cost	9,776,433	5,305,353	10,423,579	10,618,307	9,564,316
Total Expenses	$ 23,768,307	$ 20,119,105	$ 25,417,427	$ 24,850,101	$ 23,329,781
Net Revenue Available for Debt Service	$ 16,321,172	$ 19,327,426	$ 13,388,994	$ 12,637,612	$ 12,062,132
Customer Count:					
Water	52,597	52,200	51,058	50,175	49,189
Sewer	47,975	47,407	55,786	52,636	52,636

Note: Expenditures do not include depreciation.

(1) Revenues do not include developer contributions for donated water and sewer lines.

(2) Expenditures do not include depreciation.

TABLE 7 – COVERAGE AND FUND BALANCES

Average Annual Principal and Interest Requirements (2020-2033)	$ 3,249,246	(1)
Coverage of Average Annual Requirements by 2018 Net Revenue	5.02 Times	(2)
Maximum Principal and Interest Requirements, 2021	$ 5,464,206	(1)
Coverage of Maximum Requirements by 2018 Net Revenue	2.99 Times	(2)
Utility System Bonds Outstanding after the Issuance of Bonds	$ 36,160,000	(3)
Parity Obligations Interest and Sinking Fund, 8-30-19	$ 3,282,348	

(1) Excludes System Supported Ad Valorem Tax Debt Service. Includes the Bonds and excludes the Refunded Bonds.
(2) Coverage numbers are based on all Outstanding Debt Obligations, including Parity Obligations.
(3) Includes all Parity Obligations. Includes the Bonds and excludes the Refunded Bonds.

ADDITIONAL SYSTEM REVENUE DEBT . . . The City does not anticipate the issuance of Additional Parity Obligations within the next twelve months.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees, except firemen, through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. The City provides pension benefits to firefighters through the Killeen Firefighter's Relief and Retirement Fund, a single-employer defined benefit pension plan. (For more detailed information concerning the retirement plan, see "APPENDIX B – Excerpts from the City's Annual Financial Report.")

As a result of its participation in the TMRS and having no other post-retirement benefit plans, the City has no obligations for other post-employment benefits within the meaning of Government Accounting Standards Board Statement 45.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the City, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the City, that contribute to the TMRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the City's fiscal year ending September 30, 2015. See "APPENDIX B – Excerpts from the City's Annual Financial Report" herein. GASB Statement No. 68 applies only to pension benefits and does not apply to OPEB or other related liabilities. At the conclusion of the 2017-18 fiscal year, the City had a net pension liability of $16,617,185.

See "VI. Restatement of Fund Balance/Net Position" in the audited financial statement excerpts of the City for the year ended September 30, 2018 as set forth in APPENDIX B hereto for information related to the City's adoption of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and the related prior period adjustment.

FINANCIAL ADMINISTRATION . . . The financial administration of the City is vested in the Department of Finance. The Department of Finance operates under the Director of Finance, who is appointed by the City Manager. Required activities of the Department of Finance are control, custody and disbursement of City funds, assessment and collection of taxes and issuance of licenses. Other activities of the Department of Finance include utility billing and collections, internal service fund operation, annual budget preparation and interim and annual financial reports.

FINANCIAL POLICIES

BASIS OF ACCOUNTING . . . All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

The more significant revenues which are treated as susceptible to accrual under the modified accrual basis are property taxes, intergovernmental revenues, charges for services, and interest. Other revenue sources are not considered measurable and available, and are not treated as susceptible to accrual.

All proprietary funds and the pension trust fund are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. For more detailed information concerning the basis of accounting, see "APPENDIX B – Excerpts from the City of Killeen, Texas Annual Financial Report."

General Fund Balance . . . The City's policy is to maintain surplus and unencumbered funds equal to 22% of budgeted expenditures in the General Fund. This allows the City to avoid interim borrowing pending tax receipts.

Use of Bond Proceeds, Grants, Etc. . . . The City's policy is to use bond proceeds, grants or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year by the first of July. The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15. The City Council then holds a public hearing on the budget. The Council shall then make any changes in the budget as it deems advisable and shall adopt a budget prior to September 20.

Fund Investments . . . The City investment policy parallels state law which governs investment of public funds. The City generally restricts investments to direct obligations of the United States Government and to insured or collateralized bank bonds of deposits. The City's investment portfolio does not contain derivative securities.

INVESTMENTS

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

Legal Investments . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or,(ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

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

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TABLE 8 – CURRENT INVESTMENTS

As of July 31, 2019, the City's unaudited investable funds were invested in the following categories:

Investments	Market Value	% of Total
TexSTAR	$ 520,816	0.65%
Money Market Accounts	7,933,182	9.88%
Certificates of Deposit	71,827,400	89.47%
	$ 80,281,398	100.00%

As of such date, 94.53% of the City's investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100% of its book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

SELECTED PROVISIONS OF THE ORDINANCE

The following provisions have been excerpted from the Ordinance authorizing the Bonds.

WHEREAS, Tex. Gov't Code Ann. Ch. 1502 provides that the governing body of a municipality may issue public securities for the purposes hereinafter provided, and the City Council (the "City Council") of the City of Killeen, Texas (the "City") finds and determines that it is necessary, useful and appropriate for the City's public purposes to authorize and provide for the issuance and sale of revenue bonds of the City for such purposes, as hereinafter provided; and

WHEREAS, the City of Killeen, Texas (the "City") has paid in full its "Prior Obligations," which included, collectively, City of Killeen, Texas Waterworks and Sewer System Revenue Bonds, Series 2004, the City of Killeen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2005 , and the City of Killeen, Texas Waterworks and Sewer System Revenue Bonds, Series 2007; and

WHEREAS, such Prior Obligations were secured by a first lien on the Net Revenues, as hereinafter defined, superior to the lien on the Net Revenues securing the Parity Revenue Obligations, as hereinafter defined; and

WHEREAS, the City covenanted against issuing any additional obligations on parity with the Prior Obligations, therefore as a result of the Prior Obligations no longer being outstanding, the lien on the Net Revenues securing the Parity Revenue Obligations is no longer junior and subordinate to the lien securing the Prior Obligations and is therefor now a first lien on such Net Revenues; and

WHEREAS, as described above, the City has previously issued and has outstanding several series of obligations payable from and secured by a first lien on the Net Revenues, as hereinafter defined, of the City's waterworks and sewer system; and

WHEREAS, Section 9.01 of the ordinances authorizing the Parity Revenue Obligations, as hereinafter defined, and State law, including Section 1502.061, Texas Government Code, as amended, authorize the City to issue obligations with a lien on parity with the lien on the Net Revenues securing the Parity Revenue Obligations; and

WHEREAS, in order to reduce costs, increase borrowing capacity and provide the City with greater financial flexibility, the City now desires to issue waterworks and sewer system revenue refunding bonds secured by and payable from a pledge of and lien on the Net Revenues of the System which pledge and lien is on parity with the pledge and lien of Net Revenues for the Parity Revenue Obligations; and

WHEREAS, the Bonds authorized by this Ordinance, together with the Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2013 Bonds and any Additional Parity Obligations, shall be secured by a first lien upon the Net Revenues of the System; and

WHEREAS, the City Council of the City deems it advisable and in the best interest of the City to refund the Refunded Obligations, as hereinafter defined, in order to achieve a net present value debt service savings of not less than 3.5% of the principal amount of the Refunded Obligations net of any City contribution with such savings, among other information and terms to be included in a pricing certificate executed by the City Manager, acting as the designated pricing officer of the City, or, in the absence of the City Manager, the Mayor as the Pricing Officer, all in accordance with the provisions of Chapter 1207, including 1207.007, and Chapter 1371 of the Texas Government Code thereof; and

WHEREAS, Chapter 1207, Texas Government Code, as amended ("Chapter 1207") authorizes the City to issue refunding bonds and to deposit the proceeds from the sale thereof together with any other available funds or resources, directly with a place of payment (paying agent) for the Refunded Obligations or a trust company or commercial bank other than a depository of the City, and such deposit, if made before such payment dates, shall constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; and

WHEREAS, Chapter 1207 further authorizes the City to enter into an agreement with a paying agent for the Refunded Obligations or a trust company or commercial bank that does not act as a depository for the City with respect to the safekeeping, investment, reinvestment, administration and disposition of any such deposit, upon such terms and conditions as the City and such paying agent may agree, provided that such deposits may be invested and reinvested in Defeasance Securities, as defined herein; and

WHEREAS, the Escrow Agreement hereinafter authorized, constitutes an agreement of the kind authorized and permitted by said Chapter 1207; and

WHEREAS, all the Refunded Obligations mature or are subject to redemption prior to maturity within 20 years of the date of the bonds hereinafter authorized; and

WHEREAS, the Bonds authorized by this Ordinance are being issued and delivered pursuant to the City Charter, and Chapters 1207, 1371 and 1502 of the Texas Government Code; as amended, and other applicable laws; and

WHEREAS, it is officially found, determined and declared that the meeting at which this Ordinance has been adopted was open to the public, and public notice of the date, hour, place and subject of said meeting, including this Ordinance, was given, all as required by the applicable provisions of Chapter 551, Texas Government Code, as amended; Now, Therefore

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF KILLEEN:

ARTICLE I

DEFINITIONS AND OTHER PRELIMINARY MATTERS

Section 1.01. Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise, in this Ordinance the following terms shall have the meanings specified below:

*****

"Additional Parity Obligations" means those obligations the City reserves the right to issue on a parity with the Bonds, herein authorized in accordance with the terms and conditions prescribed in Section 9.01 hereof.

*****

"Bond" means any of the Bonds.

"Bonds" means one or more series of the City's bonds entitled "City of Killeen, Texas, Waterworks and Sewer System Revenue Refunding Bonds," or such other name as determined by the Pricing Officer for a series of Bonds authorized to be issued by Section 3.01 of this Ordinance and each Pricing Certificate and including any of the Tax-Exempt Bonds and Taxable Bonds as designated by the Pricing Officer in each Pricing Certificate for a series of Bonds.

"Closing Date" means the date of the initial delivery of and payment for each series of the Bonds.

*****

"Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the 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 City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

*****

"Escrow Agent" means The Bank of New York Mellon Trust Company, N.A.

"Escrow Agreement" means each escrow agreement, by and between the City and the Escrow Agent.

"Escrow Fund" means the fund referred to in Article VIII of this Ordinance and established by each Escrow Agreement to hold cash and securities for the payment of principal of and interest on the Refunded Obligations.

"Event of Default" means any Event of Default as defined in Section 11.01 of this Ordinance.

"Federal Securities" as used herein means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

"Fiscal Year" means twelve months' period beginning October 1 of each year and ending September 30 of the succeeding year.

*****

"Insurance Policy" means any insurance policy issued by any insurer guaranteeing the scheduled principal of and interest on any series of the Bonds when due.

"Interest and Sinking Fund" means the interest and sinking fund provided by Section 8.01(b) of this Ordinance.

"Interest Payment Date" means the date or dates upon which interest on the Bonds is scheduled to be paid until the maturity or prior redemption of the Bonds as provided in each Pricing Certificate.

*****

"Net Revenues" means the gross revenues of the System less the expense of operation and maintenance, including all salaries, labor, materials, repairs and extensions necessary to render efficient service, provided, however, that only such repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the security of any special obligations payable from and secured by a lien on the net revenues of the System shall be deducted in determining "Net Revenues."

"Ordinance" means this Ordinance.

*****

"Owner" means the person who is the registered owner of a Bond or Bonds, as shown in the Register.

"Parity Revenue Obligations" means the Bonds the Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2013 Bonds and Additional Parity Obligations.

"Paying Agent/Registrar" means The Bank of New York Mellon Trust Company, N.A., any successor thereto or an entity which is appointed as and assumes the duties of paying agent/registrar as provided in this Ordinance and the Pricing Certificate.

"Policy" means any Insurance Policy and the Reserve Policy.

*****

"Pricing Certificate" means each Pricing Certificate of the City's Pricing Officer executed and delivered pursuant to Section 3.02 hereof in connection with the issuance of each series of the Bonds.

"Pricing Officer" means the City Manager, including any interim or acting City Manager responsible for the duties of the City Manager, or in his absence, the Mayor, acting as the designated Pricing Officer of the City to execute each Pricing Certificate.

"Purchaser" means the person, firm or entity (whether one or more) initially purchasing a series of the Bonds from the City as set forth in each Pricing Certificate.

*****

"Refundable Obligations" means all or a portion of the City's outstanding Waterworks and Sewer System obligations.

"Refunded Obligations" means those Refundable Obligations designated by the Pricing Officer in each Pricing Certificate to be refunded.

"Register" means the Register specified in Section 3.06(a) of this Ordinance.

*****

"Reserve Fund" means the reserve fund provided by Section 8.01(c) of this Ordinance.

"Reserve Fund Obligation" means a surety bond, insurance policy, letter of credit or other agreement or instrument, including any related reimbursement or financial guaranty agreement, by which the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument, provided that the issuer of any Reserve Fund Obligation shall be rated, at the time of issuance of such Reserve Fund Obligation, at least the rating carried on the Bonds by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business.

"Reserve Policy" means any reserve fund insurance policy issued by an Insurer.

"Revenue Fund" means the revenue fund provided by Section 8.01(a) of this Ordinance.

*****

"Series 2010 Bonds" means the "City of Killeen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2010."

"Series 2011 Bonds" means the "City of Killeen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2011."

"Series 2012 Bonds" means the "City of Killeen, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2012."

"Series 2013 Bonds" means "City of Killeen, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2013."

*****

"System" means the City's combined waterworks and sewer (wastewater) system, including all present and future extensions, enlargements, additions, replacements and improvements thereto.

"Taxable Bonds" means any Bonds designated by the Pricing Officer in the Pricing Certificate as Taxable Bonds, the interest on which is includable in the gross income of the owner thereof for federal income tax purposes.

"Tax-Exempt Bonds" means any of the Bonds designated by the Pricing officer as Tax-Exempt Bonds, the interest on which is excludable from the gross income of the owner thereof for federal income tax purposes pursuant to Section 103 of the Code.

*****

Section 2.01. Pledge of Revenues for Payment of the Bonds.

(a) The Net Revenues (with the exception of those in excess of the amounts required to establish and maintain the Funds as hereinafter provided) are hereby irrevocably pledged for the payment of the principal of and interest on the Parity Revenue Obligations, including the establishment and maintenance of the Reserve Fund hereinafter provided.

(b) The City hereby covenants not to issue obligations payable from the Net Revenues with a lien superior to the lien created by the Parity Revenue Obligations and this Ordinance.

Section 2.02. Special Obligations.

The Bonds are special obligations of the City payable from the Net Revenues, and the Holders thereof are not entitled to demand payment thereof out of any money raised by taxation.

*****

Section 8.01. Fund Designations.

The City hereby covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end the City hereby confirms its previous creation and establishment of the following special Funds pursuant to the ordinances authorizing the issuance of the Parity Revenue Obligations, to-wit:

(a) The City of Killeen Waterworks and Sewer System Revenue Fund (the "Revenue Fund"). This Fund shall be kept in the City's official depository bank.

(b) The City of Killeen Waterworks and Sewer System Revenue Bonds Interest and Sinking Fund (the "Interest and Sinking Fund"). This Fund shall be kept at an official depository bank of the City. Money deposited in this Fund shall be used to pay principal of and interest on the Parity Revenue Obligations when and as the same shall become due and payable.

(c) The City of Killeen Waterworks and Sewer System Revenue Bonds Reserve Fund, (the "Reserve Fund"). This Fund shall be kept at an official depository bank of the City. Money deposited in this Fund shall be used to pay principal of and/or interest on the Parity Revenue Obligations falling due at any time when there is not sufficient money available in the Interest and Sinking Fund.

The special Funds herein provided shall continue to be maintained at all times while any of the Parity Revenue Obligations remain outstanding.

Section 8.02. Initial Deposits; Escrow Fund.

On the Closing Date, the City shall cause the proceeds from the sale of the Bonds to be deposited as follows:

(i) first, any accrued interest on each series of the Bonds from the Original Issue Date until the Closing Date, shall be deposited to the credit of the Interest and Sinking Fund;

(ii) second, the remaining balance, less any amounts paid at Closing as costs of issuance, shall be deposited to the credit of the Escrow Fund.

Section 8.03. Revenue Fund.

All revenues of every nature received through the operation of the System shall be deposited from day to day as collected into the Revenue Fund, to be kept separate and apart from all other City funds and accounts. Moneys deposited in the Revenue Fund shall be pledged and appropriated to the following uses and in the order of precedence shown:

(a) To the payment of all reasonable and proper expenses of operating and maintaining the System as set forth in the definition of "Net Revenues" contained in Section 1.01 hereof.

(b) To the payment of all amounts required to be deposited and credited to the Interest and Sinking Fund to meet all financial obligations of the City related to the Bonds, the Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2013 Bonds, the Bonds and any Parity Obligations.

(c) To the payment of all amounts required to be deposited and credited to the Reserve Fund pursuant to this Ordinance or any ordinance relating to the issuance of Parity Revenue Obligations.

(d) To any other fund, account or subaccount to the extent required pursuant to the provisions of any ordinance relating to Parity Revenue Obligations.

(e) To any other fund, account or subaccount to the extent required by any ordinances pursuant to which subordinate debt is issued.

(f) To any other City purpose now or hereafter permitted by law.

Section 8.04. Interest and Sinking Fund.

(a) The City hereby covenants and agrees to make monthly deposits to the Interest and Sinking Fund from moneys in the Revenue Fund to pay the principal of and interest on the Bonds as follows:

(i) Such amounts, deposited in substantially equal monthly installments on or before the 10th day of each month following the Closing Date, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay the interest scheduled to accrue and become due and payable with respect to the Bonds on the next succeeding Interest Payment Date;

(ii) Such amounts, deposited in substantially equal monthly installments on or before the 10th day of each month following the Closing Date, as will be sufficient, together with other amounts, if any, on hand in the Interest and Sinking Fund and available for such purpose, to pay the principal scheduled to mature and come due on the Bonds on the next succeeding Interest Payment Date on which principal of the Bonds is to be payable.

(b) The monthly deposits to the Interest and Sinking Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Interest and Sinking Fund and Reserve Fund is equal to the amount required to pay all outstanding obligations (principal and/or interest) for which said Fund was created and established to pay or (ii) the Bonds are no longer outstanding, i.e., fully paid as to principal and interest or all of the Bonds have been refunded.

(c) Any proceeds of the Bonds not required to be deposited in the Escrow Fund, shall be deposited to the Interest and Sinking Fund. Proceeds of the Bonds so deposited, accrued interest and any other amount or amounts received from the Purchaser of the Bonds and required by this Ordinance to be deposited to the Interest and Sinking Fund, may be taken into consideration and reduce the amount of the monthly deposits hereinabove provided which would otherwise be required to be deposited in the Interest and Sinking Fund from the Net Revenues of the System.

Section 8.05. Reserve Fund.

(a) The City hereby covenants and agrees with the Owners of the Bonds that it will provide for the accumulation of, and when accumulated, will thereafter continuously maintain in the Reserve Fund an amount equal to not less than the average annual principal and interest requirements of the Parity Revenue Obligations (calculated on a Fiscal Year basis as of the date the last series of Parity Revenue Obligations were authorized). Immediately following the delivery of the Bonds, the appropriate City officials shall calculate and determine the average annual principal and interest requirement for the Parity Revenue Obligations then outstanding. After deducting the amount then on deposit in the Reserve Fund from such calculation, the amount of the difference, if any, shall be deposited in the Reserve Fund in sixty (60) substantially equal monthly payments on or before the 10th day of each month; the initial monthly deposit to be made on or before the 10th day of the month next following the Closing Date. After the total amount required to be on deposit in the Reserve Fund has been accumulated, monthly payments to said fund may be terminated; provided, however, should the amount on deposit therein be reduced below the sum required to be maintained in said fund after the same has been accumulated, payments to said fund in an amount equal to the deficiency shall be resumed and continued to be made on or before the 10th day of each month until the total amount then required to be on deposit in the Reserve Fund has been fully restored. In the event money in the Reserve Fund is used for an authorized purpose while monthly payments are being made to said fund, the amount required to restore the sum then required to be on deposit therein shall be added to the payments then being made in the following month or months until the total amount then required to be on deposit in said fund has been fully restored.

(b) Notwithstanding the requirements of subsection (a) above, the City may provide a Reserve Fund Obligation issued in amounts equal to all or part (as may be specified in the ordinance authorizing any series of Parity Revenue Obligations), of the average annual principal and interest required of the Parity Revenue Obligations in lieu of depositing cash into the Reserve Fund; provided, however, that no such Reserve Fund Obligation may be so substituted unless (i) the substitution of the Reserve Fund Obligation will not cause any ratings then assigned to the Bonds by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business to be lowered and (ii) the ordinance authorizing the substitution of the Reserve Fund Obligation for all or part of the average annual principal and interest requirements of the Parity Revenue Obligations contains (A) a finding that such substitution is cost effective and (B) a provision that the interest due on any repayment obligation of the City by reason of payments made under such policy does not exceed the highest lawful rate on interest which may be paid by the City at the time of the delivery of the Reserve Fund Obligation. The City reserves the right to apply the proceeds of the Revenue Fund to payment of the subrogation obligation incurred by the City (including interest) to the issuer of the Reserve Fund Obligation, the payment of which will result in the reinstatement of such Reserve Fund Obligation, prior to making payment required to be made to the Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the average annual principal and interest requirements of the Parity Revenue Obligations.

(c) In the event a Reserve Fund Obligation issued to satisfy all or part of the City's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the average annual principal and interest requirements of all Parity Revenue Obligations, the City, may transfer such excess amount to any fund or funds established for the payment of or security for the Parity Revenue Obligations (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law.

(d) Notwithstanding anything to the contrary contained herein, the requirement set forth in subsection (a) above to maintain the Reserve Fund shall be suspended for such time as the "net revenues" of the System for each Fiscal Year are equal to at least 1.35 times the combined average annual principal and interest requirements of all outstanding Parity Revenue Obligations. In the event that the "net revenues" for any Fiscal Year are less than 1.35 times the combined average annual principal and interest requirements of all outstanding Parity Revenue Obligations, the City will be required to commence maintaining the Reserve Fund as provided in this Section 8.05, and to continue maintaining such Reserve Fund until the earlier of (i) such time as the Reserve Fund is fully funded or (ii) the "net revenues" in each of two consecutive years have been equal to not less than 1.35 times the combined average annual principal and interest requirements of all outstanding Parity Revenue Obligations. Notwithstanding the provisions of subsection (a) above, if the City commences deposits in the Reserve Fund and later is authorized to suspend payments into the fund under this section any funds so accumulated may, at the discretion of the City: (i) remain in the Reserve Fund or (ii) be used for any lawful purpose including additional projects or to pay debt service on the Bonds. The term "net revenues" as used in this Section shall mean the gross revenues of the System after deduction of maintenance and operating expenses, but not deducting depreciation or expenditures which, under standard accounting practices, are classed as capital expenditures.

Section 8.06. Deficiencies in Funds.

If in any month the City shall, for any reason, fail to pay into the Interest and Sinking Fund and Reserve Fund the full amounts required, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated revenues of the System for the following month or months and such payments shall be in addition to the amounts hereinabove provided to be otherwise paid into said Funds during such month or months.

Section 8.07. Excess Revenues.

Any revenues in excess of those required to establish and maintain the Funds as above required may be used to purchase and retire Parity Revenue Obligations in the open market at not exceeding the market value thereof, the redemption of such obligations, or for any lawful purpose now or hereafter provided by law.

Section 8.08. Security of Funds.

All moneys on deposit in the funds referred to in this Ordinance 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 moneys on deposit in such funds shall be used only for the purposes permitted by this Ordinance.

Section 8.09. Investments.

(a) Money in the Funds established by this Ordinance, at the option of the City, may be invested in such securities or obligations as permitted under applicable law.

(b) Any securities or obligations in which money is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the fund from which the investment was made.

Section 8.10. Investment Income.

Interest and income derived from investment of any fund created by this Ordinance shall be credited to such fund.

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Section 9.01. Issuance of Additional Parity Obligations Authorized .

In addition to the right to issue obligations of inferior lien as authorized by the laws of this State, the City reserves the right to issue Additional Parity Obligations which, when duly authorized and issued in compliance with law and the terms and conditions hereinafter appearing, shall be on a parity with the Bonds herein authorized, Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2013 Bonds and any Additional and Parity Obligations payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System and Additional Parity Obligations shall in all respects be of equal dignity. The Additional Parity Obligations may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

(a) The City is not then in default as to any covenant, condition or obligation prescribed in an ordinance authorizing the issuance of the outstanding Parity Revenue Obligations.

(b) The proposed Additional Parity Obligations shall have been approved by the Attorney General of Texas.

(c) Each of the Funds created for the payment, security and benefit of the Parity Revenue Obligations contains the amount of money then required to be on deposit therein.

(d) The City has secured from a Certified Public Accountant a certificate or report reflecting that for the fiscal year next preceding the date of the proposed Additional Parity Obligations or a consecutive twelve (12) month period out of the fifteen (15) month period next preceding the month in which the ordinance authorizing the proposed Additional Parity Obligations is adopted, the "net revenues" of the System were equal to at least 1.20 times the combined average annual principal and interest requirements on all Parity Revenue Obligations to be outstanding after the issuance of the proposed Additional Parity Obligations. In making a determination of such net revenues, the Certified Public Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which such net revenues are determined and, for purposes of satisfying such net revenues test, make a pro forma determination of such net revenues for the period of time covered by the certificate or report based upon such change in rates and charges as being in effect for the entire period covered by the certificate or report. The term "net revenues" as used in this Section 9.01 shall mean the gross revenues of the System after deduction of maintenance and operating expenses, but not deducting depreciation or expenditures which, under standard accounting practices, are classed as capital expenditures.

(e) The ordinance authorizing the Additional Parity Obligations provides (i) that the Interest and Sinking Fund be augmented by amounts adequate to accumulate the sum required to pay the principal and interest on such obligations as the same shall become due, and (ii) (a) the amount to be accumulated and maintained in the Reserve Fund, or such amount together with the amount or amounts any Reserve Policy or Policies, shall be increased to an amount not less than the average annual principal and interest requirements of all Parity Revenue Obligations to be outstanding after giving effect to the issuance of the proposed additional obligations, and any additional amount required to be maintained in the Reserve Fund shall be accumulated within sixty-one months from the date of delivery of such Additional Parity Obligations or (b) the Reserve Fund is expected to meet the requirements of Section 8.05(d) of this Ordinance.

(f) Parity Revenue Obligations may be refunded (pursuant to any law then available) upon such terms and conditions as the governing body of the City may deem to be in the best interest of the City and its inhabitants; and if less than all such outstanding Parity Revenue Obligations are refunded, the proposed refunding obligations shall be considered as "Additional Parity Obligations" under the provisions of this Section, and the report or certificate required by paragraph (d) shall give effect to the issuance of the proposed refunding obligations and shall not give effect to the obligations being refunded.

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Section 10.01. Rates and Charges.

The City covenants and agrees with the Owners of the Bonds that so long as any Parity Revenue Obligations, or any interest thereon, remain outstanding and unpaid, it will charge and collect for services rendered by the System amounts sufficient at all times to:

(a) Pay all operating, maintenance, depreciation, replacement and betterment expenses, and other costs deductible in determining Net Revenues;

(b) Establish and maintain the Interest and Sinking Fund and Reserve Fund created for the payment and security of the Parity Revenue Obligations; and

(c) Pay the requirements of all other outstanding lawful indebtedness of the System as and when the same becomes due.

Section 10.02. Maintenance and Operation; Insurance.

The City shall maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any Parity Revenue Obligations are outstanding, the City agrees to maintain insurance for the benefit of the holder or holders of the obligations on the System of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business. Nothing in this ordinance shall be construed as requiring the City 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 City from doing so.

Section 10.03. Records; Accounts; Accounting Reports.

The City hereby covenants and agrees that so long as any Parity Revenue Obligations, or any interest thereon, remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System, separate and apart from all other records and accounts, in which complete and correct entries shall be made of all transactions relating thereto, as provided by Chapter 1502, Texas Government Code, as amended, and that the owner or owners of any of said Parity Revenue Obligations or any duly authorized agent or agents of such owners shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that within 90 days following 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 or Licensed Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(a) A detailed statement of the income and expenditures of the System for such fiscal year.

(b) A balance sheet as of the end of such fiscal year.

(c) The Accountant's comments regarding the manner in which the City has carried out the requirements of this ordinance and his recommendations for any changes or improvements in the operation, records and accounts of the System.

(d) A list of the insurance policies in force at the end of the fiscal year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

(e) A list of the securities which have been on deposit as security for the money in the Interest and Sinking Fund throughout the fiscal year, a list of the securities, if any, in which the Reserve Fund has been invested, and a statement of the manner in which money in the System Fund has been secured in such fiscal year.

(f) The number of properties connected with the System.

Expenses incurred in making the audits above referred to are to be regarded as maintenance and operating expenses of the System and paid as such.

Section 10.04. Special Covenants.

The City hereby further covenants as follows:

(a) The City has the lawful power to pledge the Net Revenues supporting this issue of Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, including said power existing under Chapter 1502, Texas Government Code, as amended; that the Bonds and the Additional Parity Obligations, when issued, shall be ratably secured under said pledge in such manner that one issue of Parity Revenue Obligations shall have no preference over any other issue.

(b) Other than the Parity Revenue Obligations to be outstanding following issuance of the Bonds and certain obligations of the City which may be issued in the future secured by and payable from a lien on and pledge of the Net Revenues, the Bonds, the Series 2010 Bonds, the Series 2011 Bonds, the Series 2012 Bonds, the Series 2013 Bonds and any Additional and any Additional Parity Obligations, the Net Revenues of the System have not in any manner been pledged to the payment of any debt or obligation of the City or of the System.

(c) So long as any of the Bonds or any interest thereon remain outstanding, the City will not sell or encumber the System or any substantial part thereof, provided that this shall not be construed to prohibit the sale of such machinery or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System; also, with the exception of the Additional Parity Obligations expressly permitted by this Ordinance to be issued, it will not encumber the Net Revenues of the System unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance.

(d) No free service of the System shall be allowed, and should the City or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of moneys from sources other than the revenues and income of the System.

(e) To the extent that it legally may, the City further covenants and agrees that, as long as any Parity Revenue Obligations, or any interest thereon, are outstanding, no franchise shall be granted for the installation or operation of any competing waterworks or sewer system; and that the City will prohibit the operation of any water system or sewer system other than those owned by the City, and the operation of any such system by anyone other than this City is hereby prohibited.

Section 10.05. Payment of the Bonds.

While any of the Bonds are outstanding and unpaid, there shall be made available to the Paying Agent/Registrar, out of the Interest and Sinking Fund, money sufficient to pay the interest on and the principal of the Bonds, as applicable, as will accrue or mature on each applicable Interest Payment Date.

Section 10.06. Other Representations and Covenants.

(a) The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance and in each Bond; and the City will, at the times and in the manner prescribed by this Ordinance and the Pricing Certificate, deposit or cause to be deposited the amounts of money specified by this Ordinance and the Pricing Certificate.

(b) The City is duly authorized under the laws of the State of Texas to issue the Bonds; all action on its part for the creation and issuance of the Bonds has been duly and effectively taken; and the Bonds in the hands of the Owners thereof are and will be valid and enforceable obligations of the City in accordance with their terms.

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Section 11.01. Events of Default.

Each of the following occurrences or events for the purpose of this Ordinance is hereby declared to be an "Event of Default," to-wit:

(i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the City, the failure to perform which materially, adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with this Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the City; or

(iii) the City files bankruptcy.

Section 11.02. Remedies for Default.

(a) Upon the happening of any Event of Default, then and in every case any Owner or an authorized representative thereof, including but not limited to, a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(b) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Bonds then outstanding.

Section 11.03. Remedies Not Exclusive.

(a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Ordinance.

(b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

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Section 14.01. Amendment of Ordinance.

The City hereby reserves the right to amend this Ordinance subject to the following terms and conditions, to-wit:

(a) The City may from time to time, without the consent of any holder, except as otherwise required by paragraph (b) below, amend or supplement this Ordinance in order to (i) cure any ambiguity, defect or omission in this Ordinance that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of this Ordinance and that shall not materially adversely affect the interests of the holders, (iv) qualify this Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such other provisions in regard to matters or questions arising under this Ordinance as shall not be inconsistent with the provisions of this Ordinance and that shall not in the opinion of the City's Bond Counsel materially adversely affect the interests of the holders.

(b) Except as provided in paragraph (a) above, the holders of Bonds aggregating in principal amount 51% of the aggregate principal amount of then outstanding Bonds that are the subject of a proposed amendment shall have the right from time to time to approve any amendment hereto that may be deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in aggregate principal amount of the then outstanding Bonds, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Ordinance or in any of the Bonds so as to:

(1) Make any change in the maturity of any of the outstanding Bonds;

(2) Reduce the rate of interest borne by any of the outstanding Bonds;

(3) Reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds;

(4) Modify the terms of payment of principal or of interest or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or

(5) Change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

(c) If at any time the City shall desire to amend this Ordinance under this Section, the City shall send by U.S. mail to each registered owner of the affected Bonds a copy of the proposed amendment and cause notice of the proposed amendment to be published at least once in a financial publication published in The City of New York, New York or in the State of Texas. Such published notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the office of the City for inspection by all holders of such Bonds.

(d) Whenever at any time within one year from the date of publication of such notice the City shall receive an instrument or instruments executed by the holders of at least 51% in aggregate principal amount of all of the Bonds then outstanding that are required for the amendment, which instrument or instruments shall refer to the proposed amendment and that shall specifically consent to and approve such amendment, the City may adopt the amendment in substantially the same form.

(e) Upon the adoption of any amendatory Ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be modified and amended in accordance with such amendatory Ordinance, and the respective rights, duties, and obligations of the City and all holders of such affected Bonds shall thereafter be determined, exercised, and enforced, subject in all respects to such amendment.

(f) Any consent given by the holder of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Bond during such period. Such consent may be revoked at any time after six months from the date of the publication of said notice by the holder who gave such consent, or by a successor in title, by filing notice with the City, but such revocation shall not be effective if the holders of 51% in aggregate principal amount of the affected Bonds then outstanding, have, prior to the attempted revocation, consented to and approved the amendment.

TAX MATTERS

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including the Sufficiency Certificate and information and representations contained in the City's federal tax certificate, (b) covenants of the City contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith and (c) the verification report of Public Finance Partners LLC. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

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

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

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

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

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

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

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as "qualified tax-exempt obligations."

The Bonds have been designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds" or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2019, is not expected to exceed $10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during 2019.

Notwithstanding the designation of the Bonds as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 8 and in APPENDIX B. The City will update and provide this information within 6 months after the end of each fiscal year ending in or after 2019.

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

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB.

EVENT NOTICES . . . The City will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The City will provide notice of any of the following events with respect to the Bonds: (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 Beneficial 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 City or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the City or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the City or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15)

incurrence of a financial obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. Neither the Bonds nor the Ordinance make any provision for credit enhancement, liquidity enhancement, redemption prior to stated maturity, or a trustee.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under "Annual Reports" and "Event Notices" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB, where it will be available through the MSRB's Electronic Municipal Market Access, or "EMMA" system, to the general public, free of charge, at www.emma.msrb.com.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria VA 22314, and its telephone number is (703) 797-6600.

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell 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 (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule, with the submission of their annual financial reports. In previous continuing disclosure undertakings, the City has agreed to supply financial information and operating data with respect to the City of the general type of information contained in specified tables of the applicable Official Statement. The annual financial information filings made by the City as a result of these undertakings for each of the last five years have consisted of the related City's Comprehensive Annual Financial Report ("CAFR"), which the City believes contains the information of the general type of information contained in the specified tables. Please note that certain information in the specified tables is not presented explicitly in the CAFRs but can be calculated from information in the CAFRs, except for the amount of authorized but unissued bonds amounts. The City has not had any amount of authorized but unissued bonds in the last five years. See "OTHER INFORMATION – Ratings" herein.

OTHER INFORMATION

RATINGS . . . The Bonds have been rated "AA" by S&P without regard to credit enhancement. The City has not applied to other rating agencies, but the City's System supported Parity Obligations currently have an underlying rating of "AA-" by Fitch. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by one or more of such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

LITIGATION . . . It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

On the date of delivery of the Bonds to the Underwriter, the City will execute and deliver to the Underwriter 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 question the validity of the Bonds.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS 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 acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION – Ratings" 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 capital of one million dollars or more, 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. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS . . . The City 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 Texas to the effect that the initial Bonds are valid and binding special obligations of the City's System, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the effect that the Bonds are valid and legally binding special obligations of the City and the interest on such Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not specified private activity bonds, subject to the matters described under "TAX MATTERS" herein. The form of such opinion is attached hereto as APPENDIX C.

In the performance of its duties, Bond Counsel has reviewed the information describing the Bonds in the Official Statement under the captions "PLAN OF FINANCE – Refunded Bonds," "THE BONDS" (except for the subcaptions "Book-Entry-Only System," "Use of Certain Terms in Other Sections of this Official Statement," "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "SELECTED PROVISONS OF THE ORDINANCE," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaptions "Availability of Information from MSRB" and "Compliance with Prior Undertakings") and the subcaptions "Legal Investments and Eligibility to Secure Public Funds in Texas," "Registration and Qualification of Obligations for Sale" (except for the las paragraph thereof), and "Legal Opinions" (except for the last sentence of the second paragraph thereof) under the caption "OTHER INFORMATION" and is of the opinion that the information relating to the Bonds and the Ordinance contained therein fairly and accurately describe the provisions thereof. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas whose fee is contingent on the sale and delivery of the Bonds.

The 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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

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

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

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

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

UNDERWRITING . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at a price equal to the initial offering price to the public shown on the inside cover page of this Official Statement less an underwriting discount of $45,173.24, and no accrued interest. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

Reference is made to original documents in all respects. The Ordinance authorizing the issuance of the Bonds will also approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter.

References to website 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 websites and the information or links contained therein are not incorporated into, and are not part of, this official statement for purposes of, and as that term is defined in, the Rule.

This Official Statement has been approved by the City Council of the city for distribution in accordance with the provisions of the United States Securities and Exchange Commission's Rule 15c2-12, as amended.

/s/ JOSE L. SEGARRA
Mayor
City of Killeen, Texas

ATTEST:

/s/ LUCY ALDRICH
City Secretary
City of Killeen, Texas

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Waterworks and Sewer System Revenue Refunding Bonds, Series 2012

Original Dated Date	Original Maturity	Interest Rates	Amount
July 12, 2012	8/15/2020	2.980%	$ 65,000
	8/15/2021	2.980%	65,000
	8/15/2022	2.980%	70,000
	8/15/2023	2.980%	1,860,000
	8/15/2024	2.980%	3,045,000
	8/15/2027	2.980%	1,885,000
			$ 6,990,000

Redemption Date: 10/30/2019
Redemption Price: 100%

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY . . . The City of Killeen, Texas (the "City") is a centrally located Texas city in Bell County on U.S. Highway 190, a major U.S. Highway that intersects Interstate Highway 35 approximately 17 miles east of the City and U.S. Highways 281 and 183 approximately 30 miles to the west of the City. Waco, Texas is located 65 miles to the north and Austin is 70 miles to the south of the City. Including annexations that have occurred over the last several years, the City now encompasses a total area of 54.69 square miles.

The City was founded in 1882 by the Santa Fe Railroad and named in honor of a civil employee of the railroad, Frank P. Killeen. In 1884, the City had a population of 350 and consisted of a post office, a cotton gin and two grain mills. The 1941 population of 1,265 rose to 7,100 in 1950, due primarily to the activation of Fort Hood, a military base on the City's northern border, which began functioning in 1943 and was designated a permanent military installation in 1950. The City has since experienced population increases. The City's 1960 population was 23,377, the 1970 population was 35,507, the 1980 population was 46,296, the 1990 population was 63,535, the 2000 population was 86,911 and the 2010 U.S. Census Report population was 127,921. The City's estimated 2019 population is 150,857.

CITY SERVICES . . . The City provides the basic governmental services to the citizens such as police protection, fire protection, emergency medical services, parks and recreation programs and health and cultural activities.

UTILITIES . . . Electric and gas are provided by Reliant Energy and Atmos. Water is supplied to the City by Bell County Water Control & Improvement District No. 1. Sprint Telephone Company provides phone service. The City provides water distribution and sewer service.

TRANSPORTATION . . . U.S. Highway 190 is a four-lane divided highway between the City and its intersection with Interstate Highway 35. Interstate Highway 35 is the state's major north-south freeway traveling north to Dallas and Fort Worth, Texas and south to Austin and San Antonio.

The City operates two airports: The Killeen-Fort Hood Regional Airport and Skylark Field. The Killen-Fort Hood Regional Airport is a joint use facility sharing a runway with the US Army at Fort Hood's Robert Gray Army Airfield. This $83,000,000 City facility includes a new terminal building, maintenance facilities, rental car facilities, parking lots, fuel facilities, aircraft parking aprons and roads. Three airlines operate from the airport, American Airlines/American Eagle, Continental Connection and Delta Connection. The second City airport, Skylark Field, serves as the community general aviation facility. Private aircraft, corporate aircraft, an Army helicopter repair facility and a college flight program operate from Skylark Field.

The City is on the main line of the Atchison, Topeka and Santa Fe Rail System and has daily service available for carload shipments as far as Los Angeles to the west, Houston to the south and Chicago to the north. Local facilities include pick-up, delivery, loading docks, forklifts and piggy-back service.

Arrow Trailways bus line provides arrivals and departures daily. Services connect to Greyhound-Trailways services for connections throughout the United States.

Motor freight carriers serving the City include Allied Van Lines, Mayflower Transit, and Central Transportation System.

BUSINESS AND INDUSTRY . . . The City and community organizations combine their efforts to develop a diversified economy.

Area developments that directly affect the City's economy:

1) The City's Killeen-Fort Hood Regional Airport opened on August 2, 2004.

2) Metroplex Hospital, King's Daughters and Scott & White Clinic are located in the City. They augment the large military hospital at Fort Hood, Metroplex recently expanded its facility by over 62,000 square feet.

3) On August 26, 2010, various representations of the Texas A&M System, the City, Central Texas as well as the Governor broke ground on the $40 million, 103,000 square foot first building for Texas A&M Central Texas located in the City. The initial building comprised of classroom space, a lecture hall, student services, enrollment services, administrative office, support services and campus bookstore.

4) Fort Hood will get a $708 million hospital that will be paid for with money from the Stimulus plan. The new hospital and a supporting utility plant will be located adjacent to Darnall Army Medical Center, the existing Vietnam War-era hospital at the central Texas post.

MAJOR EMPLOYERS

Name of Taxpayer	Number of Employees
Fort Hood	66,400
Killeen ISD	6,000
Central Texas College	1,487
City of Killeen	1,271
Metroplex Hospital	1,200
Aegis Communications	880
ESP, Inc.	420
Scott & White Clinic	361
Camber Corporation	270
Blackboard Student Services	238

MILITARY FACILITIES – FORT HOOD . . . Established in 1942, Fort Hood is the largest armored military installation in the free world and is home to the III Mobile Armored Corps. Fort Hood's southwest boundary is bordered by the City of Copperas Cove, its southeast boundary is bordered by the City of Killeen, and it is bordered to the north by the City of Gatesville. A 35 square mile installation (214,351 acres), Fort Hood is the only post in the United States capable of stationing and training two Armored Divisions. The rolling, semiarid terrain is ideal for multifaceted training and testing of military units and individuals. Fort Hood is "The Army's Premier Installation to train and deploy heavy forces." Fort Hood is the largest single location employer in the State of Texas.

In addition to the 1st Cavalry Division and 1st Army Division West, Fort Hood is also residence for Headquarters Command III Corps, 3d Armored Calvary Regiment, 3d Air Support Operations Group, 13th Sustainment Command (Expeditionary), 13th Finance Management Center, 21st CAV Brigade (Air Combat), 36th Engineer Brigade, 41st Fires Brigade, 48th Chemical Brigade, 69th Air Defense Artillery Brigade, 89th Military Police Brigade, 504th Battlefield Surveillance Brigade (BfSB), the Dental Activity (DENTAC), the Medical Support Activity (MEDDAC), U.S. Army Operational Test Command (USAOTC), and various other units and tenant organizations.

Fort Hood was named for the famous Confederate Gen. John Bell Hood, an outstanding leader who gained recognition during the Civil War as the commander of Hood's Texas Brigade.

The original site was selected in 1941, and construction of South Camp Hood began in 1942. North Camp Hood, located 17 miles to the north, was established shortly after the first land acquisition and the founding of the cantonment area. South Camp Hood was designated as Fort Hood, a permanent installation, in 1951. North Camp Hood became North Fort Hood and what is now West Fort Hood was formerly a U.S. Air Force Base. Both the airfield and the base were run by the U.S. Air Force from 1947 to 1952. From 1952 to 1969, the facilities were run by the U.S. Army under the Defense Atomic Support Agency. It became part of Fort Hood in 1969.

Population served	218,003
Active Duty (Officer)	4,929
Active Duty (Enlisted)	45,414
Family Members - On Post	17,954
Family Members - Off Post	89,933
Retirees, Survivors & Family Members	246,718
Civilian/NAF/Other Employees	8,909

EDUCATION . . . Killeen Independent School District covers 400 square miles and serves students from the City and the Cities of Harker Heights, Fort Hood, Nolanville and rural West Bell County. The school system includes four high schools, two alternative schools, one area vocational school, eleven middle schools, thirty elementary schools and four specialized schools.

Central Texas College (the "College") is a two-year community college with the main campus in the City and with special campuses at military bases scattered over the United States and the world. The College also has special classrooms aboard ships in the U.S. Navy. The College, established in 1967, offers the following degrees: Associate of Art, Associate of Science, Associate in Applied Science and Associate in General Studies. Affordable quality education is provided in more than 40 areas of study and the College offers wide educational and training opportunities for those students who do not select a degree or certificate program.

The College has Matriculation agreements with many four-year institutions and classes taken at CTC will transfer to any public university in the state of Texas. The Central Campus Financial Aid and the Veterans Services offices assist students in securing scholarships, grants, and loans. Additionally the college Foundation offers over $70,000 in scholarships to CTC students annually.

Texas A&M University-Central Texas is part of the Texas A&M University System, offers upper-level, state-supported educational opportunities. The Center's junior and senior curriculum can lead to a bachelor's degree and the Center also offers courses leading to graduate degrees. The Center is located in the City.

The Fort Hood Educational Services Division provides resources for academic and military self-development. Services are provided for soldiers, family members and DA civilian employees. On post are educational programs providing for associate degrees and certificates, bachelor's degrees and master's degrees. Colleges and universities represented include the College, Texas A&M University, the University of Mary Hardin-Baylor and St. Mary's University.

HOSPITALS AND HEALTH CENTERS . . . Metroplex Hospital is a full service, non-profit modern 213-bed general acute care hospital managed by the Adventist Health System/Sunbelt Health Care Corporation, located in the City. The facility offers an expanded 24-hour emergency center, general and same-day surgery suites; including laser and endoscopy, advanced diagnostic imaging capabilities, including Magnetic Resonance Imaging (MRI), CT scan, nuclear medicine techniques, cariac-cath lab for diagnosing heart blockage and other heart-related problems, x-ray imaging, ultrasound, nationally ranked mammography center and more.

Clear Creek Medical Plaza, located adjacent to Metroplex Hospital, is a medical center complex housing several physician offices, a family service center, a pharmacy and full laboratory and x-ray services.

Scott & White Killeen Clinic is an extension of the Scott & White Clinic in the City and provides basic family health services. It has also recently expanded to meet the needs of the patients from Coryell, Lampasas and Bell Counties. In addition to the large staff of family practice medicine, it provides specialists in pediatrics, occupational medicine and worker's compensation.

The Medical Arts Center, located in the City, offers diagnostic services through its physician coverage and its full service laboratory and x-ray department, allergy and asthma, audiology and orthopedic surgery.

King's Daughters Clinic is an extension of the King's Daughters Hospital in the City and provides basic family health services.

PARKS AND RECREATION . . . The City provides its citizens with 21 public parks including four major park areas totaling 382 acres, these being the Longbranch Park (77 acres), Conder Park (32 acres), Lion's Park (66 acres) and Community Center Complex (110 acres). Both Longbranch and Pershing Park have full recreation facilities including swimming pools, lighted tennis courts, softball fields, pavilions and restrooms. Bacon Ranch Park includes a rodeo arena, exhibition building and livestock area.

The Athletic Complex consists of 140 acres with five softball fields (four lighted), two lighted baseball fields, a multi-purpose community center, a Senior Citizen's Center, an amphitheatre, and a three-mile hike and bike trail.

The City also operates a municipal golf course which underwent extensive renovation. Golf course improvements include a new clubhouse, eight newly designed holes and new tee boxes for three of the existing holes. State of the art practice facilities will consist of a double ended driving range, a short game area with a 9,000 square foot green with a practice bunker, a 9,000 square foot chipping green with a practice bunker as well as a 12,000 square foot putting green. The renovated course opened in December of 2004.

The Killeen Recreation Department offers a wide variety of year round recreational programs and activities for the greater Killeen area.

LABOR MARKET PROFILE

Bell County

	August 2019	August 2018
Total Civilian Labor Force	143,439	140,895
Total Employment	137,979	134,783
Total Unemployment	5,460	6,112
Percent Unemployed	3.8%	4.3%

Killeen-Temple-Fort Hood MTA

	August 2019	August 2018
Total Civilian Labor Force	177,420	174,219
Total Employment	170,674	166,707
Total Unemployment	6,746	7,512
Percent Unemployed	3.8%	4.3%

State of Texas

	August 2019	August 2018
Total Civilian Labor Force	14,015,573	13,768,541
Total Employment	13,508,756	13,222,420
Total Unemployment	506,817	546,121
Percent Unemployed	3.6%	4.0%

Source: Texas Employment Commission.

APPENDIX B

EXCERPTS FROM THE
CITY OF KILLEEN, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2018

The information contained in this APPENDIX consists of excerpts from the City of Killeen, Texas Annual Financial Report for the Year Ended September 30, 2018, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council of the
City of Killeen, 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 Killeen, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Killeen Economic Development Corporation (KEDC), the City's discretely presented component unit, which reflects total assets of $10,728,638 as of September 30, 2018 and total revenues of $1,226,636 for the year then ended. Those financial statements were audited by other auditors, whose report has been furnished to us and, our opinion, insofar as it relates to the amounts included for KEDC, is based on the report of the other auditors. 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 auditors' 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 City'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

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purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, 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 as of September 30, 2018, 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.

Emphasis of Matter

Change in Accounting Principle

In 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension liability and total other postemployment benefits liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on 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 the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019 on our consideration of the City'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 the effectiveness of the City's 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's internal control over financial reporting and compliance.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 29, 2019

City of Killeen, Texas
Management's Discussion and Analysis
September 30, 2018

As management of the City of Killeen, we offer readers of the City of Killeen's (the "City") financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 7-13 of this report.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $269.2 million (*net position*). Of this amount, unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors, was a deficit $8.5 million.
- The City's total net position increased by $22.4 million. This increase is mainly due to $13.7 million in grants and contributions from third parties, $8.5 million increase in charges for services, and $0.8 million increase on sales taxes.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of $41.1 million, an increase of $6.0 million in comparison with the prior year. 52.7% of this amount or $21.6 million is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was $21.6 million, or 28.1% of total general fund expenditures.
- The City's total outstanding long-term debt decreased by $13.7 million during the current fiscal year.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

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

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Killeen Volunteers, Inc. and Tax Increment Reinvestment Zone #2, although legally separate, function for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 33-34 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into 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 on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental* activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the debt service fund because they are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated column labeled as "Other Governmental Funds." Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

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

The basic governmental fund financial statements can be found on pages 35-38 of this report.

Proprietary Funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the operations of the airport and its solid waste, water and sewer, and drainage utility activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for activities that provide services to other funds on a cost reimbursement basis. Because this service predominantly benefits governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

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 Airport, Solid Waste, Water and Sewer, and Drainage Utility funds, all of which are considered to be major funds of the City.

The basic enterprise fund financial statements can be found on pages 39-41 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the City. The City has one private purpose trust fund, which is reported under the fiduciary funds. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 42-43 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44-95 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits and other post-employment benefits to qualifying employees and general fund budget and actual schedule of revenues, expenditures and changes in fund balance. Required supplementary information can be found on pages 97-102 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 105-143 of this report.

Government-Wide Overall Financial Analysis

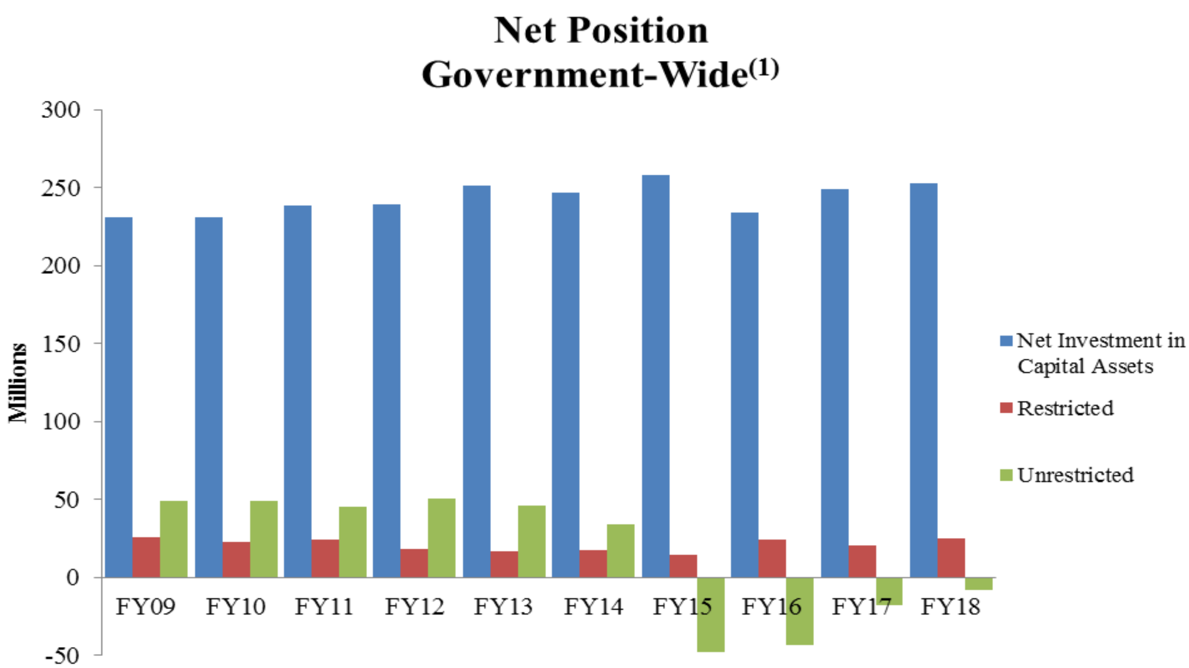
As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows by $269.2 million at the close of the most recent fiscal year.

Net Position

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current and other assets	$ 54.2	$ 43.2	$ 46.8	$ 45.4	$ 101.1	88.6
Capital assets	231.4	239.3	246.6	248.9	478.0	488.2
Total assets	285.6	282.5	293.4	294.3	579.1	576.8
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charge on refunding	11.9	10.1	2.3	2.7	14.1	12.8
Deferred outflows - pensions	4.7	12.2	0.6	0.8	5.3	13.0
Deferred outflows - OPEB	0.2	-	0.1	1.1	0.3	1.1
Total deferred outflows of resources	16.8	22.3	3.0	4.7	19.7	26.9
LIABILITIES						
Current liabilities	7.7	7.8	6.4	6.5	14.1	14.3
Noncurrent liabilities	244.0	267.9	59.6	69.1	303.6	337.0
Total liabilities	251.7	275.7	66.0	75.6	317.7	351.3
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pensions	8.4	5.0	2.0	0.6	10.4	5.6
Deferred inflows - OPEB	1.2	-	0.3	-	1.5	-
Total deferred inflows of resources	9.6	5.0	2.3	0.6	11.9	5.6
NET POSITION						
Net investment in capital assets	52.5	50.2	200.4	201.1	252.9	251.2
Restricted	17.7	12.7	7.1	8.2	24.8	20.9
Unrestricted	(29.1)	(38.8)	20.6	13.5	(8.5)	(25.3)
Total net position	$ 41.1	$ 24.2	$ 228.1	$ 222.8	$ 269.2	$ 246.9

By far, the largest portion of the City's net position, $252.8 million, reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure, equipment, and systems), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



(1) Information has not been restated for GASB68 and 75 implemented in 2015 and 2018, respecively.

An additional portion of the City's net position, $24.8 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, a negative $8.5 million, may be used to meet the City's ongoing obligations to citizens and creditors. This negative unrestricted net position is a direct result of the implementation of GASB 68 in fiscal year 2015and GASB 75 in 2018, through which the City is required to record a net pension and OPEB liability in the government-wide financial statements See Note IV.G and H for more detail.

The City's overall net position increased by $22.4 million from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental and business-type activities.

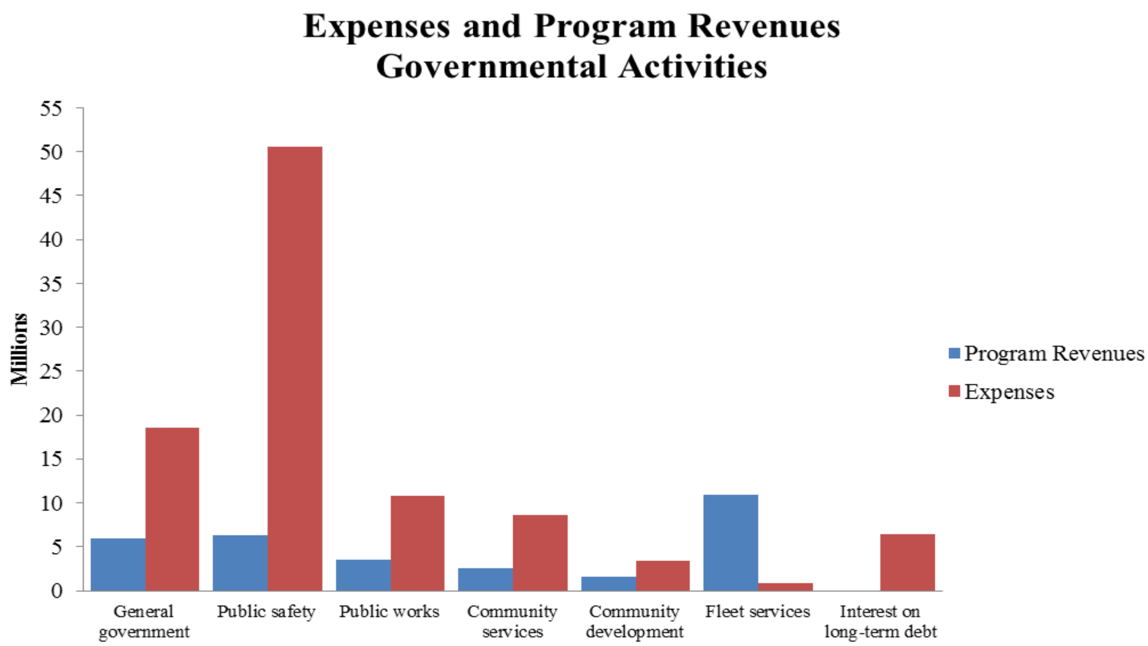
Governmental Activities. During the current fiscal year, net position for governmental activities increased $17.0 million from the prior fiscal year for an ending balance of $41.1 million. Key elements of this increase are as follows:

- Charges for services totaled $22.1 million, an increase of $8.2 million from the prior year.
- Governmental activities received contributions of $8.7 million from grant agencies.
- Sales taxes increased by $0.8 million.

Changes in Net Position

(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	$ 22.10	$ 13.85	$ 66.28	$ 65.81	$ 88.38	$ 79.66
Operating grants and contributions	5.07	6.93	-	-	5.07	6.93
Capital grants and contributions	3.66	3.72	4.40	6.28	8.06	10.00
General revenues:						
Property taxes	42.80	39.84	-	-	42.80	39.84
Franchise taxes	5.94	5.50	-	-	5.94	5.50
Sales taxes	25.87	24.76	-	-	25.87	24.76
Interest and investment income	0.78	0.38	0.56	0.28	1.34	0.66
Insurance proceeds	0.14	0.30	0.08	0.01	0.22	0.31
Gain on sale of capital assets	0.25	-	0.12	0.19	0.37	0.19
Lease revenue	-	0.35	0.10	0.06	0.10	0.41
Total revenues	106.61	95.63	71.54	72.63	178.15	168.26
Expenses						
General	18.53	7.64	-	-	18.53	7.64
Public safety	50.53	47.15	-	-	50.53	47.15
Public works	10.75	7.14	-	-	10.75	7.14
Community services	8.62	9.47	-	-	8.62	9.47
Community development	3.43	3.20	-	-	3.43	3.20
Fleet services	1.09	1.17	-	-	1.09	1.17
Interest on long-term debt	6.47	7.74	-	-	6.47	7.74
Airport operations	-	-	6.54	5.83	6.54	5.83
Solid waste	-	-	14.51	11.07	14.51	11.07
Water and sewer	-	-	32.11	27.18	32.11	27.18
Drainage utility	-	-	3.17	2.40	3.17	2.40
Total expenses	99.42	83.50	56.33	46.48	155.75	129.99
Change in net position before transfers	7.19	12.13	15.21	26.15	22.40	38.27
Transfers	9.81	9.90	(9.81)	(9.90)	-	-
Change in net position	17.00	22.03	5.40	16.25	22.40	38.27
Net position at beginning of year	27.46	3.57	225.01	208.76	252.47	212.33
Prior period adjustment	(3.35)	1.86	(2.28)	-	(5.63)	-
Net position at end of year	$ 41.11	$ 27.46	$ 228.13	$ 225.01	$ 269.24	$ 212.33



Business-type activities. Business-type activities increased the City's net position by $5.4 million. Key elements of this increase are as follows:

.

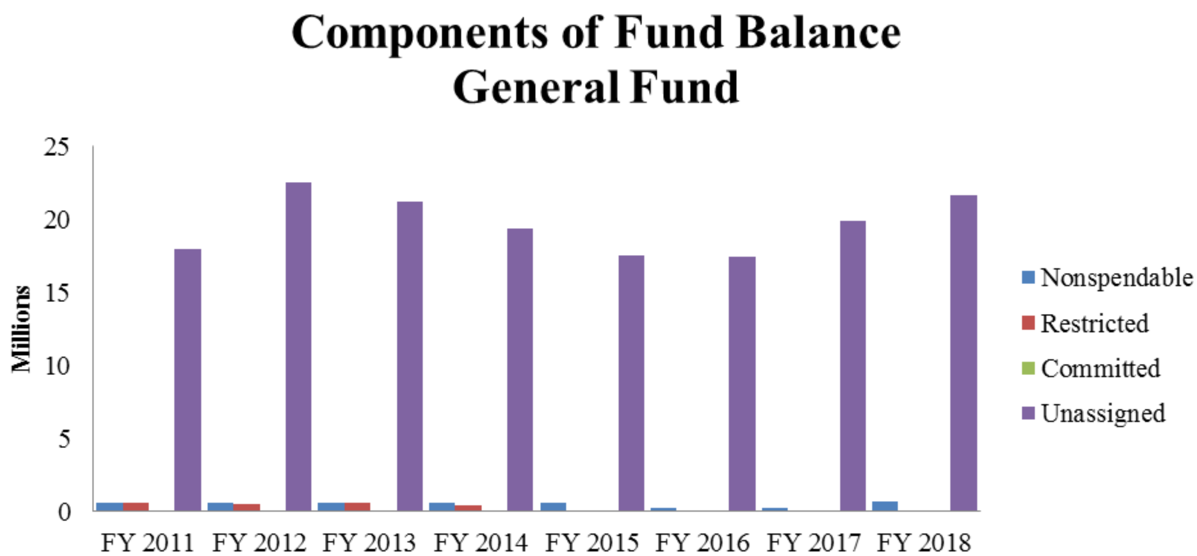
- Charges for business-type activities totaled $66.3 million, an increase of $0.5 million from the prior year.
- The aviation, water and sewer, and drainage utilities received capital contributions of $4.4 million from developers and grant agencies.
- Investment earnings amounted to $0.6 million.

Financial Analysis of the City's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined fund balances of $41.1 million, an increase of $6.0 million in comparison with the prior year. Approximately $21.6 million (52.65%) of this amount constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is either *nonspendable* or *restricted* to indicate that it is 1) not in spendable form (0.7 million) or 2) restricted for particular purposes ($18.7 million).



The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was $21.6 million, while the total fund balance increased to $22.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents 28.1 percent of total general fund expenditures, while total fund balance represents 29.0 percent of that same amount.

The fund balance of the City's general fund increased by $1.0 million during the current fiscal year. As discussed earlier in connection with governmental activities, the increase was due to grants and contributions from grant agencies.

The debt service fund, the remaining major governmental fund, had an increase in fund balance during the current year of $1.1 million to bring the year end fund balance to $5.2 million. Key elements of this increase are as follows:

- The TxDOT reimbursement for the pass-through financing program was $0.4 million more than anticipated.
- The city refunding bond resulted in a saving of $0.4 million.

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

Unrestricted net position of the airport, solid waste, water and sewer, and drainage funds at the end of the year amounted to $1.0 million, $5.0 million, $10.4 million, and $4.2 million, respectively. The combined growth in net position for all funds was $5.4 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Original Budget Compared to Final Budget. Differences between the original budget and the final amended budget amounted to a $1.2 million increase in appropriations, and can be briefly summarized as follows:

- The Public Works Department's budget increased by $0.5 million to cover estimated legal expenses due to potential litigation.
- Streets operation equipment sold following a three-year buyback program proceeds of $0.3 million, were used to purchase new equipment.

Final Budget Compared to Actual Results. The most significant differences between estimated revenues and actual revenues were as follows:

Revenue Source	Estimated Revenues	Actual Revenues	Difference
Intergovernmental revenue	$ 3,957,645	$ 3,429,865	$ (527,780)
Charges for services	6,801,633	5,944,911	(856,722)
Taxes	57,154,481	57,848,227	693,746

The shortfall in intergovernmental revenue was primarily caused by public safety grant revenue being lower than expected. Charges for services is the classification used to report ambulance, animal control, Golf, and parks and recreation revenue came in lower than expected. Sales taxes increased by $0.8 million.

A review of actual expenditures compared to appropriations in the final budget yields no significant variances with one exception. Actual expenditures for the police department within the public safety function ($26.8 million) were lower than the related appropriation of $28.7 million by approximately $2.0 million. This savings was a result of personnel vacancies throughout the year.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018 amount to $478.0 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. The total decrease in capital assets for the current fiscal year was $8.1 million.

Capital Assets

(net of depreciation, in millions of dollars)

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	2017	2018	2017	2018	2017
Land	$ 7.57	$ 7.57	$ 1.81	$ 1.81	$ 9.38	$ 9.38
Construction in progress	34.18	59.97	1.56	10.84	35.74	70.81
Buildings	59.86	64.13	64.78	66.98	124.64	131.11
Improvements other than buildings	-	-	151.96	151.36	151.96	151.36
Furniture and equipment	3.66	2.53	0.97	0.82	4.63	3.35
Vehicles	4.53	6.16	3.09	4.40	7.62	10.56
Infrastructure assets	121.52	96.81	22.52	12.71	144.04	109.52
Total	$ 231.32	$ 237.17	$ 246.69	$ 248.92	$ 478.01	$ 486.09

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

- $3.8 million of water, sewer, and drainage infrastructure was contributed to the City by developers.
- Various projects related to streets and sidewalks at a cost of $3.6 million.
- The purchase of various vehicles at a cost of $0.5 million.

Additional information on the City's capital assets can be found in Note IV.E on pages 62-67 of this report.

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of $246.5 million. Of this amount, $182.6 million is debt backed by the full faith and credit of the City and $41.2 million in revenue bonds of the City's business enterprises.

Outstanding Debt
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total Activities	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Revenue bonds	$ -	$ -	$ 41.2	$ 45.5	$ 41.2	$ 45.5
General obligation bonds	142.8	119.1	9.9	10.6	152.7	129.7
Certificates of obligation	29.8	63.5	0.1	0.2	29.9	63.7
Plus unamortized bond premiums/discounts	18.5	16.7	4.2	4.6	22.7	21.3
Total outstanding debt	$ 191.1	$ 199.3	$ 55.4	$ 60.9	$ 246.5	$ 260.2

The City's total debt decreased by $13.7 million during the current fiscal year. The decrease is the result of the scheduled debt service payments.

The City maintains the following ratings from Standard & Poor's, Fitch Ratings, and Moody's Investor Services:

City of Killeen Bonded Debt Ratings
September 30, 2018

	Rating		
Bond Type	**S&P**	**Fitch**	**Moody's**
General Obligation	AA	AA	Aa3
Utility Revenue Bond	AA	AA-	Aa3
Certificates of Obligation	AA	AA	Aa3

All taxable property within the City of Killeen is subject to the assessment, levy, and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities such as the City of Killeen to $2.50 per $100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit allocation of

$1.50 of the $2.50 maximum rate for all general obligation debt service calculated at the time of issuance based on 90% tax collections. The current debt limitation for the City is $86.3 million, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note IV.L on pages 88-92 of this report.

Economic Factors and Next Year's Budget and Rates

The following economic factors and priorities were considered in developing the 2019 fiscal year budget:

- In fiscal year 2019, the total exempted value attributable to the disable veteran's exemption is $706.9 million, which will equate to loss of $5.3 million of revenue.
- Compensation equity adjustment for all city employees of 2.6% to bring employees to close to market.
- Establish departmental mission statements and mission elements that align with the City's mission.
- Provide the framework the City will follow in providing for the delivery of services, facilities, and infrastructure to the citizens of Killeen.
- Address the City's strategic issues to the extent resources are available: 1) balance the budget, 2) compensation equity, 3) retirement funding methodology, 4) street maintenance, 5) building maintenance.
- Focus on long-range financial planning to ensure the financial health and sustainability of Killeen.

The City Council has stipulated that the general fund maintains 22 percent of expenditures as a minimum of unassigned reserves, which currently equates to $16.9 million. At the end of fiscal year 2018, unassigned fund balance in the general fund is $21.6 million. It is intended that the available fund balance beyond the minimum be used for capital improvement and projects, and not for financing of ongoing operational costs. For fiscal year 2019, fund balance in all budgeted funds is projected to remain at adequate levels to provide for unexpected decreases in revenues plus extraordinary unbudgeted expenditures.

Requests for Information

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

City of Killeen Finance Department
802 N. 2nd Street, Building E
P. O. Box 1329
Killeen, TX 76540
(254) 501-7730
http://www.killeentexas.gov

Exhibit A-1

City of Killeen, Texas
Statement of Net Position
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Killeen Economic Development Corp.
ASSETS				
Cash and cash equivalents	$ 43,128,852	$ 25,281,056	$ 68,409,908	$ 5,915,660
Receivables (net of allowances for uncollectibles):				
Taxes	6,823,359	-	6,823,359	-
Accounts	1,155,118	8,208,266	9,363,384	-
Intergovernmental receivable	2,068,542	16,965	2,085,507	-
Inventories	437,477	332,852	770,329	-
Prepaid assets	557,022	95,916	652,938	-
Restricted assets:				
Cash and cash equivalents	-	12,819,939	12,819,939	-
Capital assets:				
Nondepreciable	41,748,322	3,368,453	45,116,775	2,216,377
Depreciable (net)	189,690,136	243,312,737	433,002,873	2,596,601
Total assets	285,608,828	293,436,184	579,045,012	10,728,638
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on refunding	11,911,234	2,327,411	14,238,645	-
Deferred outflows - pensions	4,673,162	685,514	5,358,676	-
Deferred outflows - OPEB	152,518	44,216	196,734	-
Total deferred outflows of resources	16,736,914	3,057,141	19,794,055	-
LIABILITIES				
Accounts payable	3,841,109	2,500,598	6,341,707	-
Due to other governments	-	114,274	114,274	-
Deposits payable	111,557	2,903,157	3,014,714	-
Unearned revenue	113,796	169,483	283,279	-
Accrued salaries payable	2,372,278	479,711	2,851,989	-
Accrued interest payable	1,240,037	286,677	1,526,714	-
Noncurrent liabilities:				
Due within one year	12,946,928	5,807,831	18,754,759	-
Due in more than one year	231,016,319	53,754,178	284,770,497	1,099,582
Total liabilities	251,642,024	66,015,909	317,657,933	1,099,582
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pensions	8,375,111	2,056,819	10,431,930	-
Deferred inflows - OPEB	1,216,083	289,543	1,505,626	
Total deferred inflows of resources	9,591,194	2,346,362	11,937,556	-
NET POSITION				
Net investment in capital assets	52,468,959	200,358,419	252,827,378	3,713,396
Restricted for:				
Debt service	4,494,021	5,384,661	9,878,682	-
Capital projects	9,628,364	1,796,524	11,424,888	-
Other purposes (see combining statements for detail)	3,621,300	-	3,621,300	-
Economic development	-	-	-	5,915,660
Unrestricted	(29,100,120)	20,591,450	(8,508,670)	-
Total net position	$ 41,112,524	$ 228,131,054	$ 269,243,579	$ 9,629,056

The accompanying notes are an integral part of this financial statement.

Exhibit A-2

City of Killeen, Texas
Statement of Activities
For the Year Ended September 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Unit
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business - Type Activities	Total	Killeen Economic Development Corp.
Primary government:								
Governmental activities:								
General government	$ 18,532,927	$ 4,629,114	$ 1,362,319	$ -	$ (12,541,494)	$ -	$ (12,541,494)	$ -
Public safety	50,531,932	3,661,289	2,601,446	-	(44,269,197)	-	(44,269,197)	-
Public works	10,746,654	-	24,070	3,523,797	(7,198,787)	-	(7,198,787)	-
Community services	8,624,123	2,230,770	169,611	131,330	(6,092,412)	-	(6,092,412)	-
Community development	3,432,423	636,451	908,850	-	(1,887,122)	-	(1,887,122)	-
Fleet services	1,078,970	10,941,422	93	-	9,862,545	-	9,862,545	-
Interest on long-term debt	6,466,577	-	-	-	(6,466,576)	-	(6,466,576)	-
Total governmental activities	99,413,606	22,099,046	5,066,389	3,655,127	(68,593,044)	-	(68,593,044)	-
Business-type activities:								
Airport operations	6,536,318	3,644,898	-	579,684	-	(2,311,736)	(2,311,736)	-
Solid waste	14,513,999	18,388,088	-	4,562	-	3,878,651	3,878,651	-
Water and sewer	32,112,444	40,089,479	-	2,740,560	-	10,717,595	10,717,595	-
Drainage utility	3,170,071	4,157,847	-	1,078,752	-	2,066,528	2,066,528	-
Total business-type activities	56,332,832	66,280,312	-	4,403,558	-	14,351,038	14,351,038	-
Total primary government	$ 155,746,438	$ 88,379,358	$ 5,066,389	$ 8,058,685	(68,593,044)	14,351,038	(54,242,006)	-
Component Unit:								
Killeen Economic Development Corp.	$ 1,171,116	$ 724,578	$ 386,354	$ -				(60,184)
General revenues:								
Taxes:								
Ad valorem taxes					42,796,449	-	42,796,449	-
Franchise taxes					5,937,598	-	5,937,598	-
Sales and occupancy taxes					25,869,644	-	25,869,644	-
Investment income					782,209	556,044	1,338,254	77,466
Insurance proceeds					138,552	82,381	220,933	16,117
Gain on disposition of capital assets					252,468	117,013	369,481	22,121
Lease revenue					-	102,000	102,000	-
Transfers					9,813,125	(9,813,125)	-	-
Total general revenues and transfers					85,590,045	(8,955,687)	76,634,359	115,704
Change in net position					16,997,001	5,395,351	22,392,352	55,520
Net position - beginning					27,464,806	225,014,905	252,479,711	9,726,938
Prior period adjustment					(3,349,283)	(2,279,202)	(5,628,485)	(153,402)
Net position - ending					$ 41,112,524	$ 228,131,054	$ 269,243,578	$ 9,629,056

The accompanying notes are an integral part of this financial statement.

Exhibit A-3

City of Killeen, Texas
Balance Sheet
Governmental Funds
September 30, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 19,836,840	$ 4,143,838	$ 13,680,867	$ 37,661,545
Receivables (net of allowances for uncollectibles):				
Taxes	6,395,395	237,108	190,856	6,823,359
Accounts	1,145,598	-	9,520	1,155,118
Intergovernmental receivable	50,011	1,007,500	1,011,031	2,068,542
Due from other funds	66,397	-	-	66,397
Inventories	154,011	-	6,408	160,419
Prepaid assets	534,217	-	7,274	541,491
Total assets	$ 28,182,469	$ 5,388,446	$ 14,905,956	$ 48,476,871
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 2,391,560	$ 504	$ 1,151,439	$ 3,543,503
Due to other governments	-	-	-	-
Due to other funds	-	-	66,397	66,397
Other liabilities	111,557	-	-	111,557
Accrued salaries payable	2,226,202	-	38,267	2,264,469
Unearned revenue	68,942	-	44,854	113,796
Total liabilities	4,798,261	504	1,300,957	6,099,722
Deferred inflows of resources:				
Unavailable revenue	1,069,190	237,108	-	1,306,298
Total deferred inflows of resources	1,069,190	237,108	-	1,306,298
Fund Balances:				
Nonspendable:				
Inventories	154,011	-	6,408	160,419
Prepaid assets	534,217	-	7,274	541,491
Restricted for:				
Debt service	-	5,150,834	346,116	5,496,950
Capital projects	-	-	9,628,364	9,628,364
Other purposes (see combining statements for detail)	-	-	3,621,300	3,621,300
Unassigned	21,626,790	-	(4,463)	21,622,327
Total fund balances	22,315,018	5,150,834	13,604,999	41,070,851
Total liabilities, deferred inflows of resources, and fund balances	$ 28,182,469	$ 5,388,446	$ 14,905,956	$ 48,476,871

The accompanying notes are an integral part of this financial statement.

Exhibit A-4

City of Killeen, Texas
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2018

Total fund balances - governmental funds balance sheet		$ 41,070,851
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets (net of accumulated depreciation) used in governmental funds are not financial resources and, therefore, are not reported in the funds.		228,385,422
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(192,931,901)
Vacation, sick leave, and compensatory time payable is not due and payable in the current period and, therefore, is not reported in the funds.		(11,814,631)
The other post employment benefit obligation (OPEB) is not due and payable in the current period and, therefore, is not reported in the funds.		(8,481,351)
The net pension liability is not due and payable in the current period and, therefore, is not reported in the funds.		(30,905,530)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred inflows - pension	(8,204,610)	
Deferred inflows - OPEB	(1,216,083)	(9,420,693)
Deferred outflows of resources are not reported in the governmental funds:		
Deferred charges on debt refundings	$ 11,911,234	
Deferred outflows - pension	4,607,084	
Deferred outflows - OPEB	148,256	16,666,574
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		1,306,298
Internal service funds are used by management to charge costs of fleet services to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the government-wide statement of net position.		7,237,486
Net position of governmental activities - statement of net position		$ 41,112,524

The accompanying notes are an integral part of this financial statement.

Exhibit A-5

City of Killeen, Texas
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended September 30, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 57,848,227	14,563,970	$ 2,093,180	$ 74,505,377
Licenses and permits	1,218,182	-	-	1,218,182
Intergovernmental	3,429,865	2,086,709	2,592,012	8,108,586
Charges for services	5,944,911	-	730,777	6,675,688
Fines	2,717,748	-	345,064	3,062,812
Investment earnings	396,799	168,891	164,819	730,509
Contributions	46,646	-	436,736	483,382
Miscellaneous	129,044	-	206,683	335,727
Total revenues	71,731,422	16,819,570	6,569,271	95,120,263
EXPENDITURES				
Current:				
General government	13,367,869	-	19,865	13,387,734
Public safety	50,221,075	-	395,557	50,616,632
Public works	4,065,619	-	10,300	4,075,919
Community services	4,886,675	-	2,710,118	7,596,793
Community development	3,186,783	-	-	3,186,783
Capital outlay	961,442	-	3,363,876	4,325,318
Debt service:				
Principal	169,679	8,725,000	465,000	9,359,679
Interest and fiscal charges	32,335	7,004,221	251,372	7,287,928
Refunding Costs	-	391,354	-	391,354
Total expenditures	76,891,477	16,120,575	7,216,088	100,228,140
Excess (deficiency) of revenues over (under) expenditures	(5,160,055)	698,995	(646,817)	(5,107,877)
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	33,455,000	-	33,455,000
Premium on issuance of debt	-	3,877,980	-	3,877,980
Payment to refunded bond escrow agent	-	(36,938,001)	-	(36,938,001)
Capital Leases	483,616	-	-	483,616
Insurance proceeds	138,552	-	-	138,552
Sale of assets	251,302	-	1,166	252,468
Transfers in	9,063,125	-	5,038,230	14,101,355
Transfers out	(3,770,930)	-	(517,300)	(4,288,230)
Total other financing sources (uses)	6,165,665	394,979	4,522,096	11,082,740
Net change in fund balances	1,005,610	1,093,974	3,875,279	5,974,863
Fund balance - beginning	20,177,018	4,056,860	9,729,720	33,963,598
Prior period adjustment	1,132,390	-	-	1,132,390
Fund balance - ending	$ 22,315,018	$ 5,150,834	$ 13,604,999	$ 41,070,851

The accompanying notes are an integral part of this financial statement.

City of Killeen, 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, 2018

Net change in fund balances - total governmental funds	$ 5,974,863
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report all capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation. This reconciling item represents the amount by which depreciation expense exceeded capital outlays in the current period.	(8,706,179)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, which does not have an effect on net position. This reconciling item represents the effect of this difference in the treatment of long-term debt.	8,484,709
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This reconciling item reflects the net of such expenses.	6,777,208
Some revenues in the statement of activities do not provide current financial resources and are not included in the governmental funds. This reconciling item represents the total of such revenues.	92,986
Internal service funds are used by management to charge the costs of fleet maintenance. The net operating income of the internal service fund is reported with governmental activities net of the amount allocated to business-type activities.	4,373,414
Change in net position of governmental activities - statement of activities	$ 16,997,001

The accompanying notes are an integral part of this financial statement.

City of Killeen, Texas
Statement of Net Position
Proprietary Funds
September 30, 2018

	Business-type Activities					Governmental Activities
	Airport Enterprise	Solid Waste Enterprise	Water and Sewer Enterprise	Drainage Utility Enterprise	Total Enterprise Funds	Internal Service
ASSETS						
Current assets:						
Cash and cash equivalents	$ 330,008	$ 3,804,392	$ 16,522,203	$ 4,624,453	$ 25,281,056	$ 5,467,307
Receivables (net of allowances for uncollectibles):						-
Accounts	72,777	2,361,326	5,232,551	541,612	8,208,266	-
Intergovernmental receivable	16,965	-	-	-	16,965	-
Inventories	114,930	-	217,922	-	332,852	277,058
Prepaid assets	7,619	34,915	37,342	16,040	95,916	15,531
Restricted assets:						-
Cash and cash equivalents	3,284,751	2,203,095	6,183,410	1,148,683	12,819,939	-
Total current assets	3,827,050	8,403,728	28,193,428	6,330,788	46,754,994	5,759,896
Noncurrent assets:						
Property and equipment:						
Land	1,319,003	72,165	243,332	172,190	1,806,690	-
Buildings	2,029,182	12,452,498	91,702,562	-	106,184,242	-
Improvements other than buildings	102,007,995	-	109,212,919	12,476,796	223,697,710	-
Furniture and equipment	879,023	1,133,986	918,795	228,522	3,160,326	1,675,123
Vehicles	1,085,357	11,379,237	4,865,724	2,594,791	19,925,109	3,989,602
Infrastructure	10,363	12,050	23,416,696	-	23,439,109	-
Construction in progress	-	-	1,177,562	384,201	1,561,763	-
Less accumulated depreciation	(41,664,546)	(15,403,872)	(70,718,231)	(5,307,110)	(133,093,759)	(2,611,689)
Net property and equipment	65,666,377	9,646,064	160,819,359	10,549,390	246,681,190	3,053,036
Total assets	$ 69,493,427	$ 18,049,792	$ 189,012,787	$ 16,880,178	$ 293,436,184	$ 8,812,932
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charges on refunding	-	435,860	1,682,284	209,267	2,327,411	-
Deferred Outflows - Pension	103,674	233,320	264,542	83,978	685,514	66,078
Deferred Outflows - OPEB	6,687	15,049	17,063	5,417	44,216	4,262
Total deferred outflows of resources	110,361	684,229	1,963,889	298,662	3,057,141	70,340
LIABILITIES						
Current liabilities:						
Accounts payable	$ 91,342	$ 731,508	$ 1,648,274	$ 29,474	$ 2,500,598	$ 297,607
Due to other governments	-	114,274	-	-	114,274	-
Deposits payable	15,200	4,000	2,883,957	-	2,903,157	-
Unearned revenue	15,379	-	154,104	-	169,483	-
Accrued salaries payable	62,604	169,149	184,563	63,395	479,711	107,808
Accrued interest payable	-	47,983	211,336	27,358	286,677	-
Compensated absences	56,638	158,788	133,185	74,559	423,170	95,631
Capital lease payable	-	50,868	-	38,793	89,661	243,722
Current portion of bonds payable	-	435,000	4,480,000	380,000	5,295,000	-
Total current liabilities	241,163	1,711,570	9,695,419	613,579	12,261,731	744,768
Noncurrent liabilities:						
Compensated absences	50,421	165,103	104,031	38,670	358,225	90,054
Net pension liability	22,874	163,596	515,185	19,462	721,117	332,367
Total OPEB Liability	460,994	758,009	846,762	71,793	2,137,558	56,490
Capital Lease Payable	-	306,662	-	116,522	423,184	251,606
Bonds payable net of unamortized premium (discount)	-	6,810,384	39,797,481	3,506,229	50,114,094	-
Total noncurrent liabilities	534,289	8,203,754	41,263,459	3,752,676	53,754,178	730,517
Total liabilities	775,452	9,915,324	50,958,878	4,366,255	66,015,909	1,475,285
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows - Pension	319,420	709,099	769,240	259,060	2,056,819	170,501
Deferred Inflows - OPEB	69,490	104,236	115,817	-	289,543	-
Total deferred inflows of resources	388,910	813,335	885,057	259,060	2,346,362	170,501
NET POSITION						
Net investment in capital assets	65,666,377	2,529,878	124,257,861	7,904,303	200,358,419	2,801,430
Restricted for debt service	-	485,868	4,480,000	418,793	5,384,661	-
Capital projects	1,796,524	-	-	-	1,796,524	-
Unrestricted	976,525	4,989,616	10,394,880	4,230,429	20,591,450	4,436,056
Total net position	68,439,426	8,005,362	139,132,741	12,553,525	228,131,054	7,237,486
Total liabilities, deferred inflows of resources, and net position	$ 69,603,788	$ 18,734,021	190,976,676	17,178,840	$ 296,493,325	$ 8,883,272

The accompanying notes are an integral part of this financial statement.

City of Killeen, Texas
Statement of Revenues, Expenditures and
Changes in Net Position - Proprietary Funds
For the Year Ended September 30, 2018

	Business-type Activities					Governmental Activities
	Airport Enterprise	Solid Waste Enterprise	Water and Sewer Enterprise	Drainage Utility Enterprise	Total Enterprise Funds	Internal Service
OPERATING REVENUES						
Charges for services	$ 3,642,042	$ 18,386,664	$ 40,086,634	$ 4,156,779	$ 66,272,119	$ 10,937,470
Miscellaneous	2,856	1,424	2,845	1,068	8,193	3,952
Total operating revenues	3,644,898	18,388,088	40,089,479	4,157,847	66,280,312	10,941,422
OPERATING EXPENSES						
Purchase of water	-	-	7,938,535	-	7,938,535	-
Sewage treatment	-	-	6,053,339	-	6,053,339	-
Salaries and employee benefits	1,525,989	3,962,563	4,079,862	1,466,187	11,034,601	3,425,770
Repairs and maintenance	147,267	1,104,272	771,403	176,115	2,199,057	752,722
Supplies	59,499	742,319	595,599	132,238	1,529,655	41,863
Miscellaneous services and charges	1,231,925	2,869,857	4,329,569	550,533	8,981,884	1,291,246
Refuse disposal costs	-	4,135,340	-	-	4,135,340	5,569
Depreciation	3,571,638	1,410,911	6,131,158	686,585	11,800,292	1,078,970
Total operating expenses	6,536,318	14,225,262	29,899,465	3,011,658	53,672,703	6,596,140
Operating income (loss)	(2,891,420)	4,162,826	10,190,014	1,146,189	12,607,609	4,345,282
NONOPERATING REVENUES (EXPENSES)						
Insurance proceeds	704	8,759	72,918	-	82,381	-
Gain on disposition of capital assets	-	-	117,013	-	117,013	-
Lease revenue	-	102,000	-	-	102,000	-
Intergovernmental	579,684	4,562	1,436	14,333	600,015	93
Investment earnings	40,577	79,591	341,902	93,974	556,044	51,700
Industrial development	-	-	(362,527)	-	(362,527)	-
Interest and fiscal charges	-	(288,737)	(1,850,452)	(158,413)	(2,297,602)	(23,661)
Total nonoperating revenues (expenses)	620,965	(93,825)	(1,679,710)	(50,106)	(1,202,676)	28,132
Income (loss) before contributions and transfers	(2,270,455)	4,069,001	8,510,304	1,096,083	11,404,933	4,373,414
CONTRIBUTIONS AND TRANSFERS						
Captial contributions	-	-	2,739,124	1,064,419	3,803,543	-
Transfers out	-	(2,683,706)	(6,133,767)	(995,652)	(9,813,125)	-
Total contributions and transfers	-	(2,683,706)	(3,394,643)	68,767	(6,009,582)	-
Change in net position	(2,270,455)	1,385,295	5,115,661	1,164,850	5,395,351	4,373,414
Net position - beginning	71,213,233	7,430,919	134,921,828	11,448,925	225,014,905	2,911,478
Prir year adjustment	(503,352)	(810,852)	(904,748)	(60,250)	(2,279,202)	(47,406)
Net position - ending	$ 68,439,426	$ 8,005,362	$ 139,132,741	$ 12,553,525	$ 228,131,054	$ 7,237,486

The accompanying notes are an integral part of this financial statement.

City of Killeen, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2018

	Business-type Activities					Governmental Activities
	Airport Enterprise	Solid Waste Enterprise	Water and Sewer Enterprise	Drainage Utility Enterprise	Total Enterprise Funds	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 5,160,915	$ 18,133,101	$ 40,146,868	$ 4,128,156	$ 67,569,040	$ 10,943,164
Payments to suppliers	(1,549,333)	(8,903,321)	(19,698,577)	(1,008,279)	(31,159,510)	(1,901,489)
Payments to employees	(1,805,319)	(4,532,039)	(4,674,980)	(1,669,941)	(12,682,279)	(2,796,036)
Payments to other governments	-	114,274	-	-	114,274	-
Net cash provided (used) by operating activities	1,806,263	4,812,015	15,773,311	1,449,936	23,841,525	6,245,639
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers out to other funds	-	(2,683,706)	(6,133,767)	(995,652)	(9,813,125)	-
Industrial development	-	-	(362,527)	-	(362,527)	-
Net cash (used) by noncapital financing activities	-	(2,683,706)	(6,496,294)	(995,652)	(10,175,652)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Capital contributions/grants	579,684	4,562	1,436	14,333	600,015	93
Purchase and construction of capital assets	(1,058,113)	(308,995)	(3,266,137)	(842,233)	(5,475,478)	(873,459)
Proceeds from sale of assets	-	-	117,013	-	117,013	-
Insurance proceeds	704	8,759	72,918	-	82,381	-
Lease revenue	-	102,000	-	-	102,000	-
Proceed from capital leases	-	188,474	-	192,997	381,471	-
Principal paid on long-term debt	-	(529,379)	(4,335,000)	(402,682)	(5,267,061)	(236,085)
Interest and fees paid on long-term debt	-	(317,207)	(1,835,567)	(180,482)	(2,333,256)	(23,661)
Net cash provided (used) by capital and related financing activities	(477,725)	(851,786)	(9,245,337)	(1,218,067)	(11,792,915)	(1,133,112)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends on investments	40,577	79,591	341,902	93,974	556,044	51,700
Net cash provided by investing activities	40,577	79,591	341,902	93,974	556,044	51,700
Net increase (decrease) in cash and cash equivalents	1,369,115	1,356,114	373,582	(669,809)	2,429,002	5,164,227
Cash and cash equivalents, beginning of year	2,245,644	4,651,373	22,332,031	6,442,945	35,671,993	303,080
Cash and cash equivalents, end of year	$ 3,614,759	$ 6,007,487	$ 22,705,613	$ 5,773,136	$ 38,100,995	$ 5,467,307
Cash and cash equivalents	$ 330,008	$ 3,804,392	$ 16,522,203	$ 4,624,453	$ 25,281,056	$ 5,467,307
Cash and cash equivalents - restricted	3,284,751	2,203,095	6,183,410	1,148,683	12,819,939	-
Total	$ 3,614,759	$ 6,007,487	$ 22,705,613	$ 5,773,136	$ 38,100,995	$ 5,467,307
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:						
Operating income (loss)	$ (2,891,420)	$ 4,162,826	$ 10,190,014	$ 1,146,189	$ 12,607,609	$ 4,345,282
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation expense	3,571,638	1,410,911	6,131,158	686,585	11,800,292	1,078,970
Changes in assets and liabilities:						
Decrease (increase) in receivables	1,524,458	(253,813)	(96,276)	(29,691)	1,144,678	1,742
Decrease (increase) in inventories	(5,094)	-	24,298	-	19,204	35,779
Decrease (increase) in other assets	(7,619)	(34,915)	(35,342)	(16,040)	(93,916)	(15,531)
Decrease (increase) in pension related deferred outflows	155,060	383,328	573,536	108,149	1,220,073	(66,078)
Decrease (increase) in OPEB deferred outflows	(6,354)	(14,301)	(16,214)	(5,148)	(42,017)	(4,051)
Increase (decrease) in payables	(101,029)	(16,618)	(84,179)	(133,353)	(335,179)	169,663
Increase (decrease) in due to other governments	-	114,274	-	-	114,274	-
Increase (decrease) in customer deposits	3,100	-	85,091	-	88,191	-
Increase (decrease) in accrued salaries payable	(7,935)	(3,327)	(6,065)	1,662	(15,665)	63,211
Increase (decrease) in compensated absences	(10,024)	18,845	17,675	27,185	53,681	124,912
Increase (decrease) in unearned revenue	(8,441)	(1,174)	153,664	-	144,049	-
Increase (decrease) in pension related deferred inflows	230,736	497,804	482,496	193,907	1,404,943	170,501
Increase (decrease) in OPEB deferred inflows	69,490	104,236	115,817	-	289,543	-
Increase (decrease) in net pension liability	(667,612)	(1,502,470)	(1,703,528)	(540,783)	(4,414,393)	332,367
Increase (decrease) inOPEB liability	(42,691)	(53,591)	(58,834)	11,274	(143,842)	8,872
Total adjustments	4,697,683	649,189	5,583,297	303,747	11,233,916	1,900,357
Net cash provided (used) by operating activities	$ 1,806,263	$ 4,812,015	$ 15,773,311	$ 1,449,936	$ 23,841,525	$ 6,245,639
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES						
Contributions of capital assets	$ -	$ -	$ 2,739,124	$ 1,064,419	$ 3,803,543	$ -

The accompanying notes are an integral part of this financial statement.

City of Killeen, Texas
Statement of Fiduciary Net Position
Employee Benefits Trust Fund
September 30, 2018

ASSETS		
Cash and cash equivalents	$	523,642
Accounts receivable		6,163
Total assets	$	529,805
LIABILITIES AND NET POSITION		
Liabilities:		
Distributions payable	$	523,670
Unearned Revenue		4,938
Total liabilities		528,608
Net Position:		
Net position held in trust for employee benefits		1,197
Total net position		1,197
Total liabilities and net position	$	529,805

The accompanying notes are an integral part of this financial statement.

City of Killeen, Texas
Statement of Changes in Fiduciary Net Position
Employee Benefits Trust Fund
For the Year Ended September 30, 2018

ADDITIONS	
Contributions:	
Employer	$ 4,339,921
Employee	1,952,343
Retiree	502,978
COBRA	10,164
Total contributions	6,805,406
Net investment income:	
Interest earnings	33
Total net investment income	33
Total additions	6,805,439
DEDUCTIONS	
Benefit payments	6,813,774
Total deductions	6,813,774
Change in net position	(8,335)
Net position - beginning of the year	9,532
Net position - end of the year	$ 1,197

The accompanying notes are an integral part of this financial statement.

City of Killeen, Texas
Notes to the Financial Statement
September 30, 2018

Table of Contents

I. Summary of Significant Accounting Policies

A. Description of Government-Wide 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 nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Killeen, Texas (the "City") is a Home-Rule Municipal Corporation organized and existing under the Provisions of the Constitution of the State of Texas. The City operates under a home rule charter which was approved by the electorate March 3, 1949. The charter provides for the Council-Manager form of government for the City. As authorized by its charter, the City provides the following services: public safety (police, fire, municipal court, code enforcement, and permits), public works, community services, solid waste, water and sewer, airport, drainage, and general administrative services.

The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

C. Blended Component Unit

Killeen Volunteers, Inc. (KVI) is a nonprofit corporation organized under the Texas Nonprofit Corporation Act for the exclusive purpose of benefitting and accomplishing a public purpose of the City of Killeen by providing leadership to improve the image of the City and to support and encourage individuals and organizations in the common goal for a better community. KVI is governed by a board appointed by the City of Killeen City Council. The board consists of one representative of Killeen Independent School District, one representative of Killeen Chamber of Commerce, one representative of Central Texas College, one representative of Fort Hood, the Chairpersons of the KVI program committees, and ten citizens at large. The Ex Officio members, which count towards a quorum and have voting privileges, include the Director of Volunteer Services and two City Council members. KVI provides services almost entirely for the primary government, is reported as a special revenue fund and does not issue separate financial statements.

On November 4, 2008, the City Council approved the creation of Tax Increment Reinvestment Zone Number Two ("TIRZ #2") which covers approximately 2.126 acres of vacant and partially developed land in the City. TIRZ #2 was established to provide a funding mechanism for public infrastructure improvements, including water, sewer, roads, landscaping, lighting, sidewalks, and park improvements within TIRZ #2 utilizing the property tax increment, or growth in value, subsequent to the creation of TIRZ #2. Bell County and the Central Texas College District are also participants in TIRZ #2. The board consists of four representatives of the City, two representatives of Bell County, and one representative of the Central Texas College District. The scheduled expiration date of TIRZ #2 is December 31, 2028. The TIRZ is reported as a blended component unit due to the TIRZ providing services almost entirely for the City. The TIRZ is reported as a special revenue fund and does not issue separate financial statements.

D. Discretely Presented Component Unit

The Killeen Economic Development Corporation (KEDC) is a legally separate entity from the City. KEDC was created for the purpose of promoting economic development within the City. The number of members may be increased or decreased by the City of Killeen City Council, and the members are also appointed by the City of Killeen City Council. There are three members nominated by and representing each of the following organizations: three from the City of Killeen Mayor and City Council, three from the Greater Killeen Chamber of Commerce, and three from the Killeen Industrial Foundation. Advisory members may be appointed by the City of Killeen City Council as ex officio members of KEDC, but they are nonvoting members. KEDC has been included in the reporting entity as a discretely presented component unit of the City because the City appoints a voting majority of the board, provides approximately 60% of funding for the board, and maintains the ability to impose its will on the board. Complete financial statements for KEDC may be obtained at the entity's administrative offices, which are located at One Santa Fe Plaza, P.O. Box 548, Killeen, TX 76540.

E. Basis of Presentation - Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

F. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

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

The *debt service fund* is used to account for the accumulation of revenues that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The City reports the following Proprietary funds:

Enterprise funds

The *airport fund* accounts for the provision of airport facilities. All activities necessary to provide such services are accounted for in this fund.

The *solid waste fund* accounts for the provision of solid waste collection and disposal services to the residents of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, operations and maintenance, and financing and related debt service.

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

The *drainage utility fund* accounts for operations related to providing storm drainage services to the residents of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, operations and maintenance and financing and related debt service.

Internal service funds

The *Fleet Internal Service Fund* accounts for the acquisition of vehicles/rolling stock and fleet maintenance services provided to other funds on a cost-reimbursement basis.

The *Risk Management Fund* accounts for risk management services (including claims for workers' compensation, general liability, and property damage) provided to other funds on a cost-reimbursement basis.

The *Information Technology Fund* accounts for the acquisition of information technology equipment and maintenance services provided to other funds on a cost-reimbursement basis.

Additionally, the City reports the following fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources (other than those listed below) that are legally restricted or committed to expenditures for specified purposes.

Capital project funds account for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

The *employee benefits trust fund* accounts for the City's health and life insurance benefits. It does not include pension information. This fund is reported as a fiduciary fund.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service fund) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

G. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The proprietary and fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

H. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. The appropriated budget is prepared by fund, department, and division. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

City council only approves the annual contribution for the City to KVI. The contribution makes up a substantial portion of KVIs annual resources, and is intended to be used in support to City programs. KVI annual operating budget is not approved by City Council, so it is not included in the below budget procedures.

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

i. Prior to August 1, the City Manager submits a proposed budget to the City Council for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

ii. On or before September 20, the budget is legally adopted by the City Council.

iii. Subsequent to enactment of the appropriation ordinance, the City Council has the authority to make necessary adjustments to the budget which may result in a change in total appropriations as long as total estimated expenditures do not exceed total estimated resources. The legal level of control (the level at which expenditures may not legally exceed appropriations) is the fund. Each special revenue fund and capital projects fund represents a single department. The City Manager may reallocate expenditures within a department without prior City Council approval.

iv. Formal budgetary integration is employed as a management control device by the expenditure category for the following funds, which have legally adopted annual budgets: general fund, debt service fund, special revenue funds, and enterprise funds. Annual budgetary integration is not employed for the capital projects funds because the contracts and projects in these funds provide effective project-length budgetary control.

v. Budgets for the general fund, the special revenue funds, and enterprise funds are adopted on a basis specified by the charge of the City, which is consistent with the modified accrual basis of accounting.

All budget appropriations lapse at year-end and do not carry forward to future periods except for appropriations for major capital projects.

2. Expenditures in Excess of Appropriations

For the year ended September 30, 2018, expenditures exceeded appropriations at the legal level of budgetary control as follows:

Nonmajor Funds		
Public Works:		
Photo Red Light Enforcement	$	106,504

I. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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

Investments for the City are reported at cost or amortized cost. The City invests in public funds investment pools that were created to function as money market mutual funds. Each of these public funds investment pools seeks to maintain a constant $1.00 net asset value per share.

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first out (FIFO) method and consist of expendable supplies, vehicle repair parts, and fuel. The cost of such inventories is recorded as expenditures/expenses 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 government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

3. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, except for facility and infrastructure assets, are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. For facility and infrastructure assets, the same estimated minimum useful life is used (in excess of two years), but only those infrastructure projects that cost more than $25,000 are reported as capital assets.

As the City constructs or acquires additional capital assets each period, including facility and infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized cost of the assets constructed. Interest is capitalized on enterprise fund assets acquired with tax-exempt debt. The amount of interest expense, incurred from the date of the borrowing until completion of the project, is offset by interest earned on invested proceeds over the same period.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10-50
Machinery and equipment	5-35
Vehicles	5-10
Improvements	5-50
Infrastructure	10-50

4. 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:

i. Deferred charges on refunding – 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.
ii. Pension and OPEB plan contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
iii. Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.
iv. Changes in actuarial assumptions – These changes are deferred and amortized over the average of the expected service lives of pension and OPEB plan members.
v. Difference in expected and actual experience – These changes are deferred and amortized over the average of the expected service lives of pension and OPEB plan members.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, ambulance fees, and parks and recreation fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City also has two items, which arise under a full accrual basis of accounting that qualify for reporting in this category. Accordingly, the items, the difference in expected and actual pension experience and changes in actuarial assumptions, are deferred and recognized over the estimated average remaining service lives of all pension plan members determined as of the measurement date.

5. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bonds or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered applied.

It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

6. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the purpose, committed fund balance depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The nonspendable fund balance classification includes amounts that are not in spendable form such as inventory and prepaid amounts.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City'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 (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Fund balance is classified depending on the relative strength of the spending constraints placed on the purposes for which resources can be used as follows:

i. Nonspendable fund balance – amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

ii. Restricted fund balance – amounts constrained to specific purposes externally imposed by creditors (such as through debt covenants), grantors or contributors, laws or regulations of other governments, through constitutional provisions, or by enabling legislation.

iii. Committed fund balance – amounts that can only be used for specific purposes, pursuant to constraints imposed to establish, modify, or rescind a fund balance commitment by the City Council through an ordinance.

iv. Assigned fund balance – amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has authorized the City Manager to assign, remove, or modify fund balance assigned constraints to a specific purpose.

v. Unassigned fund balance – amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In other governmental funds, it may be necessary to report a negative residual balance as unassigned.

J. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. The City may levy a tax of up to $1.50 per $100 of assessed valuations for operations and maintenance purposes. Taxes are due by January 1 following the October 1 levy date, at which time a lien attaches to the property.

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

The appraisal of property within the City has been the responsibility of the county-wide appraisal district. The appraisal district is required under the property tax code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least every five years. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, and adjusted for new improvements, exceeds the rate of the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

3. Compensated Absences

i. Vacation

The City’s policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

ii. Sick Leave

All full-time employees, other than policemen and firemen, upon retirement only, will be reimbursed for accrued sick pay up to 720 hours. Policemen and firemen, upon resignation or retirement, will be reimbursed for accrued sick up to 720 and 1080 hours, respectively. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

iii. Compensatory Leave

All nonexempt employees will receive payment for accumulated compensatory leave upon separation from the City. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

4. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 airport fund, solid waste fund, water and sewer fund, drainage fund, and internal service fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include 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.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this $228,385,422 difference are as follows:

Land	$ 7,570,005
Construction in progress	34,178,317
Buildings	102,922,386
Vehicles	25,632,573
Furniture, fixtures, and equipment	7,584,883
Infrastructure	176,125,771
Accumulated depreciation	(125,628,513)
Net adjustment to increase *fund balance – total government funds* to arrive at *net position - governmental activities*	$ 228,385,422

Another element of that reconciliation explains that "other long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds." The details of this $1,306,298 difference are as follows:

Ambulance fees receivable	$ 596,163
Ad valorem taxes receivable	698,074
Other receivable	12,061
Net adjustment to increase *fund balance – total government funds* to arrive at *net position - governmental activities*	$ 1,306,298

The final element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $192,931,901 difference are as follows:

Bonds payable	$ 172,595,000
Issuance premium/(discount) (to be amortized over life of debt)	18,451,604
Accrued interest payable	1,240,037
Lease Payables	645,260
Net adjustment to decrease *fund balance – total governmental funds* to arrive at *net position – governmental activities*	$ 192,931,901

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period." The details of this $8,706,179 difference are as follows:

Capital outlay	$ 4,325,316
Depreciation expense	(13,031,495)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net position of governmental activities*	$ (8,706,179)

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $6,777,208 difference are as follows:

Compensated absences	$	(604,335)
Pension related debt		6,541,912
Accrued interest		74,842
Total OPEB liability		(393,110)
Amortization of bond premiums		2,092,160
Amortization of deferred charge on refunding		(934,261)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$	6,777,208

The final element of that reconciliation explains that "some revenues in the statement of activities do not provide current financial resources and are not included in the governmental funds." The details of this $92,986 difference are as follows:

Ambulance fees	$	25,755
Ad valorem taxes		98,314
Other		(31,083)
Net adjustment to decrease *fund balance – total government funds* to arrive at *net position - governmental activities*	$	92,986

III. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

At year end, the community development grant fund, a nonmajor fund, has a deficit fund balance of $2,152. The reason for the deficit is that the grant fund is funded on a reimbursement basis once all grant requirements are met. This deficit will be eliminated as resources are obtained from the grantor.

IV. Detailed Notes on All Funds

A. Deposits

All of the City's demand depository accounts are held in a local banking institution under the terms of a written depository contract. The City's policy requires the depository bank to secure the City's funds on a day-to-day basis with approved pledged securities with a fair value equal to, but not less than, 102 percent of the uninsured deposit. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2018, the City's deposit balance was fully collateralized with securities held by the pledging financial institution. The City's policy is to maximize its earnings potential by keeping a majority of the City's funds on deposit with external investment pools. Funds are transferred from the pools, as needed, to ensure that the bank balance remains positive at all times.

B. Cash and Investments

Investments are made in accordance with the financial governance policies updated and adopted by the City on December 19, 2017 to comply with the Public Funds Investment Act.

The financial governance policy is consistent with statutory limitations of the State of Texas, requiring collateralization of deposits on a dollar for dollar basis or treasury issues, which are backed by the full faith and credit of the United States Government. Therefore, the City was not exposed to custodial credit risk during the fiscal year ended September 30, 2018.

The City utilized a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested.

As of September 30, 2018, the City had the following cash and investments:

	Value	Maturity (days)	Method
Demand Accounts	$11,258,194	1	Cost
Investment Pools	1,231,447	1	Amortized Cost
Money Market Accounts	13,623,969	1	Cost
Certificates of Deposit	55,116,237	76-640	Cost
Total	$81,229,847		
Weighted Average Maturity		218	

The City's deposit and investment policy addresses the following risks:

1. **Interest Rate Risk** – Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value of those securities if interest rates rise. The allowed maturity of any individual investment owned by the City shall not exceed two years at the time of purchase and pooled funds shall have a weighted maximum average dollar maturity of less than ninety days. Limiting investment maturities and purchasing government securities are the City's means for limiting exposure to fair value losses arising from interest rate fluctuations.

2. **Credit Risk** – Any securities which may be added should meet the requirements of the State of Texas as permissible investments for municipal governments which are in compliance with the Public Funds Investment Act. Investment pools must be continually rated AAAm by at least one nationally recognized rating service or not lower than investment grade by at least one nationally recognized rating service with a weighted average maturity not greater than 90 days. Money market mutual funds must be registered with and regulated by the Securities and Exchange Commission (SEC) and must provide the City with a prospectus and other information required by federal law. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

3. **Concentration Risk** – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. All of the City's investments are explicitly guaranteed by the U. S. Government or invested in an external investment pool and, therefore, are not exposed to concentration risk.

4. **Custodial Credit Risk –** For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments, held by an outside party, are fully insured and backed by the U. S. Government and registered in the name of the City. Therefore, the City is not exposed to custodial credit risk on its investments.

C. External Investment Pools

TexStar

The Texas Short Term Asset Reserve Program ("TexStar") was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexStar. TexStar will invest only in instruments authorized under both the Public Funds Investment Act and the current TexStar Investment Policy. The primary objectives of TexStar are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet participants' needs, diversification to avoid unreasonable or avoidable risks, and yield. In order to comply with the Public Funds Investment Act, TexStar maintains a AAAm rating from Standard & Poor's, which monitors weekly the fund's compliance with its rating requirements.

The TexStar Cash Reserve Fund seeks to maintain a net asset value of $1.00 per unit and provides participants with the investment of funds that require daily liquidity availability. All investments are stated at amortized cost, which closely approximates the fair value of the securities. All TexStar securities are marked to market on a daily basis.

D. Receivables

Receivables at September 30, 2018 for the City's individual major governmental funds, in the aggregate nonmajor governmental funds, proprietary funds, and the fiduciary fund, net of allowances for uncollectible accounts, consist of the following:

	Taxes	Accounts	Intergovernmental	Total Net
General	$ 6,395,395	$ 1,145,598	$ 50,011	$ 7,591,004
Debt Service	237,108	-	1,007,500	1,244,608
Other Governmental Funds	190,856	9,520	1,011,031	1,211,407
Airport	-	72,777	16,965	89,742
Solid Waste	-	2,361,326	-	2,361,326
Water & Sewer	-	5,232,551	-	5,232,551
Drainage Utility	-	541,612	-	541,612
Total	$ 6,823,359	$ 9,363,384	$ 2,085,507	$ 18,272,250
Employee Benefits Trust	$ -	$ 6,163	$ -	$ 6,163

The enterprise funds' accounts receivable include unbilled charges for services rendered at September 30, 2018.

E. Capital Assets

Capital assets activity for the year ended September 30, 2018, was as follows:

Governmental Activities:

	Balance 9/30/2017	Additions	Deletions	PY Adjustment	Balance 9/30/2018
Capital assets not being depreciated:					
Land	$ 7,570,005	$ -	$ -	$ -	$ 7,570,005
Construction in progress	59,969,117	2,699,642	(28,490,442)	-	34,178,317
Total capital assets not being depreciated	67,539,122	2,699,642	(28,490,442)	-	41,748,322
Capital assets, being depreciated:					
Buildings	103,737,282	663,641	(1,478,537)	-	102,922,386
Furniture and equipment	6,530,849	1,342,613	(451,543)	1,838,086	9,260,005
Vehicles	30,001,953	511,112	(890,890)	-	29,622,175
Infrastructure assets	147,653,562	28,472,209	-	-	176,125,771
Total capital assets being depreciated	287,923,646	30,989,575	(2,820,970)	1,838,086	317,930,337
Less accumulated depreciation for:					
Buildings	39,606,310	3,817,873	(1,478,537)	1,116,997	43,062,643
Furniture and equipment	3,997,932	1,155,606	(451,543)	775,350	5,477,345
Vehicles	23,840,097	2,142,696	(890,890)	-	25,091,903
Infrastructure assets	50,842,574	6,994,290	-	(3,228,554)	54,608,310
Total accumulated depreciation	118,286,913	14,110,465	(2,820,970)	(1,336,207)	128,240,201
Total capital assets being depreciated, net	169,636,733	16,879,110	-	3,174,293	189,690,136
Governmental activities capital assets, net	$ 237,175,855	$ 19,578,752	$ (28,490,442)	$ 3,174,293	$ 231,438,458

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

Governmental activities:	
General government	$ 867,364
Public safety	2,869,523
Public works	7,289,610
Community services	1,427,161
Community development	577,837
Internal Service Funds	1,078,970
Total depreciation expense-governmental activities	$ 14,110,465

Business - Type Activities: Airport

	Balance 9/30/2017	Additions	Deletions	PY Adjustment	Balance 9/30/2018
Capital assets not being depreciated:					
Land	$ 1,319,003	$ -	$ -	$ -	$ 1,319,003
Construction in progress	3,846,356	-	(3,846,356)	-	-
Total capital assets not being depreciated	5,165,359	-	(3,846,356)	-	1,319,003
Capital assets being depreciated:					
Buildings	3,064,864	-	(1,035,682)	-	2,029,182
Improvements other than buildings	97,114,391	4,904,469	(10,865)	-	102,007,995
Furniture and equipment	1,489,687	-	(610,664)	-	879,023
Vehicles	1,085,357	-	-	-	1,085,357
Infrastructure assets	10,363	-	-	-	10,363
Total capital assets being depreciated	102,764,662	4,904,469	(1,657,211)	-	106,011,920
Less accumulated depreciation for:					
Buildings	2,502,877	56,459	(1,035,682)	-	1,523,654
Improvements other than buildings	34,855,090	3,428,770	(10,865)	-	38,272,995
Furniture and equipment	1,393,012	64,419	(610,664)	-	846,767
Vehicles	998,413	21,265	-	-	1,019,678
Infrastructure assets	727	725	-	-	1,452
Total accumulated depreciation	39,750,119	3,571,638	(1,657,211)	-	41,664,546
Total capital assets being depreciated, net	63,014,543	1,332,831	-	-	64,347,374
Airport activities capital assets, net	$ 68,179,902	$ 1,332,831	$ (3,846,356)	$ -	$ 65,666,377

Business-Type Activities: Solid Waste

	Balance 9/30/2017	Additions	Deletions	PY Adjustment	Balance 9/30/2018
Capital assets not being depreciated:					
Land	$ 72,165	$ -	$ -	$ -	$ 72,165
Total capital assets not being depreciated	72,165	-	-	-	72,165
Capital assets being depreciated:					
Buildings	12,454,238	120,521	(122,261)	-	12,452,498
Furniture and equipment	598,234	188,474	(7,700)	354,978	1,133,986
Vehicles	11,386,540	-	(7,303)	-	11,379,237
Infrastructure assets	12,050	-	-	-	12,050
Total capital assets being depreciated	24,451,062	308,995	(137,264)	354,978	24,977,771
Less accumulated depreciation for:					
Buildings	5,280,499	384,985	(122,261)	-	5,543,223
Furniture and equipment	268,129	227,396	(7,700)	71,543	559,368
Vehicles	8,508,926	797,515	(7,303)	-	9,299,138
Infrastructure assets	1,128	1,015	-	-	2,143
Total accumulated depreciation	14,058,682	1,410,911	(137,264)	71,543	15,403,872
Total capital assets being depreciated, net	10,392,380	(1,101,916)	-	283,435	9,573,899
Solid waste activities capital assets, net	$ 10,464,545	$ (1,101,916)	$ -	$ 283,435	$ 9,646,064

Business-Type Activities: Water and Sewer

	Balance 9/30/2017	Additions	Deletions	PY Adjustment	Balance 9/30/2018
Capital assets not being depreciated:					
Land	$ 243,332	$ -	$ -	$ -	$ 243,332
Construction in progress	5,671,681	916,373	(5,410,492)	-	1,177,562
Total capital assets not being depreciated	5,915,013	916,373	(5,410,492)	-	1,420,894
Capital assets being depreciated:					
Buildings	92,166,670	-	(464,108)	-	91,702,562
Improvements other than buildings	109,212,919	-	-	-	109,212,919
Furniture and equipment	1,091,087	-	(172,292)	-	918,795
Vehicles	5,047,766	33,819	(215,861)	-	4,865,724
Infrastructure assets	12,951,135	10,465,561	-	-	23,416,696
Total capital assets being depreciated	220,469,577	10,499,380	(852,261)	-	230,116,696
Less accumulated depreciation for:					
Buildings	32,918,831	1,882,334	(464,108)	-	34,337,057
Improvements other than buildings	27,298,678	3,026,171	-	-	30,324,849
Furniture and equipment	727,438	179,028	(172,292)	-	734,174
Vehicles	4,231,481	388,020	(215,861)	-	4,403,640
Infrastructure assets	262,906	655,605	-	-	918,511
Total accumulated depreciation	65,439,334	6,131,158	(852,261)	-	70,718,231
Total capital assets being depreciated, net	155,030,243	4,368,222	-	-	159,398,465
Water and Sewer activities capital assets, net	$ 160,945,256	$ 5,284,595	$ (5,410,492)	$ -	$ 160,819,359

Business-Type Activities: Drainage Utility

	Balance 9/30/2017	Additions	Deletions	PY Adjustment	Balance 9/30/2018
Capital assets not being depreciated:					
Land	$ 172,190	$ -	$ -	$ -	$ 172,190
Construction in progress	1,320,639	8,559	(944,997)	-	384,201
Total capital assets not being depreciated	1,492,829	8,559	(944,997)	-	556,391
Capital assets being depreciated:					
Improvements other than buildings	9,832,503	2,650,093	(5,800)	-	12,476,796
Furniture and equipment	57,726	192,997	(22,201)	-	228,522
Vehicles	2,603,901	-	(9,110)	-	2,594,791
Total capital assets being depreciated	12,494,130	2,843,090	(37,111)	-	15,300,109
Less accumulated depreciation for:					
Improvements other than buildings	2,644,083	501,738	(5,800)	-	3,140,021
Furniture and equipment	30,231	45,375	(22,201)	-	53,405
Vehicles	1,983,322	139,472	(9,110)	-	2,113,684
Total accumulated depreciation	4,657,636	686,585	(37,111)	-	5,307,110
Total capital assets being depreciated, net	7,836,494	2,156,505	-	-	9,992,999
Drainage Utility activities capital assets, net	$ 9,329,323	$ 2,165,064	$ (944,997)	$ -	$ 10,549,390

Business-Type Activities: Total

	Balance 9/30/2017	Additions	Deletions	Reclassifications	Balance 9/30/2018
Capital assets not being depreciated:					
Land	$ 1,806,690	$ -	$ -	$ -	$ 1,806,690
Construction in progress	10,838,676	924,932	(10,201,845)	-	1,561,763
Total capital assets not being depreciated	12,645,366	924,932	(10,201,845)	-	3,368,453
Capital assets being depreciated:					
Buildings	107,685,772	120,521	(1,622,051)	-	106,184,242
Improvements other than buildings	216,159,813	7,554,562	(16,665)	-	223,697,710
Furniture and equipment	3,236,734	381,471	(812,857)	354,978	3,160,326
Vehicles	20,123,564	33,819	(232,274)	-	19,925,109
Infrastructure assets	12,973,548	10,465,561	-	-	23,439,109
Total capital assets being depreciated	360,179,431	18,555,934	(2,683,847)	354,978	376,406,496
Less accumulated depreciation for:					
Buildings	40,702,207	2,323,778	(1,622,051)	-	41,403,934
Improvements other than buildings	64,797,851	6,956,679	(16,665)	-	71,737,865
Furniture and equipment	2,418,810	516,218	(812,857)	71,543	2,193,714
Vehicles	15,722,142	1,346,272	(232,274)	-	16,836,140
Infrastructure assets	264,761	657,345	-	-	922,106
Total accumulated depreciation	123,905,771	11,800,292	(2,683,847)	71,543	133,093,759
Total capital assets being depreciated, net	236,273,660	6,755,642	-	283,435	243,312,737
Business-type activities capital assets, net	$ 248,919,026	$ 7,680,574	$ (10,201,845)	$ 283,435	$ 246,681,190

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

Business-type activities:	
Airport	$ 3,571,638
Solid Waste	1,410,911
Water and Sewer	6,131,158
Drainage	686,585
Total depreciation expense-business-type activities	$ 11,800,292

F. Accrued Liabilities

Accrued liabilities reported by governmental funds at September 30, 2018 were as follows:

	General	Nonmajor Governmental	Total Governmental Funds
Salary and employee benefits	$ 2,226,202	$ 38,267	$ 2,264,469

G. Pension Obligations

1. Texas Municipal Retirement System

i. 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 TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City, except for firefighters, are required to participate in TMRS.

ii. 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.

Plan provisions for the City are as follows:

	2017	2016
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

iii. Employees Covered by Benefit Terms

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

	Plan Year 2014	Plan Year 2015	Plan Year 2016	Plan Year 2017
Inactive employees or beneficiaries currently receiving benefits	407	437	466	500
Inactive employees entitled to, but not yet receiving, benefits	337	400	458	485
Active employees	1017	1041	1004	947
Total	1761	1878	1928	1932

iv. 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 of Killeen were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.62% and 10.99% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were $4,177,298 and were equal to the required contributions.

v. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

a) Actuarial Assumptions:

The TPL in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2017 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 real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

b) Discount Rate:

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

c) Changes in NPL:

	Increase (Decrease)		
	Total Pension Liability (A)	**Plan Fiduciary Net Position (B)**	**Net Pension Liability (A) - (B)**
Changes for the year:			
Service cost	$ 6,507,586	$ -	$ 6,507,586
Interest	11,862,841	-	11,862,841
Change of benefit terms	(8,113,387)	-	(8,113,387)
Difference between expected and actual experience	(1,764,142)	-	(1,764,142)
Changes of assumptions	-	-	-
Contributions - employer	-	4,264,503	(4,264,503)
Contributions - employee	-	3,104,872	(3,104,872)
Net investment income	-	20,878,508	(20,878,508)
Benefit payments, including refunds of employee contributions	(10,103,133)	(10,103,133)	-
Administrative expense	-	(108,224)	108,224
Other changes	-	(5,485)	5,485
Net Changes	(1,610,235)	18,031,041	(19,641,276)
Balance at December 31, 2016	185,656,957	150,673,852	34,983,105
Balance at December 31, 2017	$ 184,046,722	$ 168,704,893	$ 15,341,829

d) Sensitivity of the NPL to Changes in the Discount Rate:

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

	1% Decrease in Discount Rate (5.75%)	**Discount Rate (6.75%)**	**1% Increase in Discount Rate (7.75%)**
City's Net Pension Liability	$ 40,092,140	$ 15,341,829	$ (5,071,909)

e) Pension Plan Fiduciary Net Position:

Detailed information about the TMRS's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

vi. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the City recognized pension income of $4,058,766. At September 30, 2018, 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	$ -	$ 3,550,392
Changes in actuarial assumptions	-	16,635
Net difference between projected and actual investment earnings	-	4,303,185
Contributions subsequent to the measurement date	3,050,122	-
Total	$ 3,050,122	$ 7,870,212

$3,050,122 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2019	$ (1,154,157)
2020	(1,293,277)
2021	(2,933,885)
2022	(2,488,893)
Total	$ (7,870,212)

2. Deferred Compensation Fund

i. Plan Description

The City offers its employees two deferred compensation plans (the "Plans") created in accordance with Internal Revenue Code Section 457. The Plans are administered by Nationwide Retirement Solutions and ICMA. In accordance with the requirements of GASB Statement No. 32, "Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" and recent tax law changes, the City's trust agreements establish that all assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. Due to the implementation of these changes, the City does not have any fiduciary responsibility or administrative duties relating to the Plans other than remitting employees' contributions to the trustee. Accordingly, the City has not presented the assets and income from the Plans in these financial statements. Deferred compensation investments are held by an outside trustee, and Plan investments are chosen by the individual participant (employee).

The Plans, available to all permanent City employees, permit them to defer until future years up to 100% of annual gross earnings not to exceed $16,500. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

3. Firefighter's Relief And Retirement System

i. Plan Description

The City contributes to the retirement plan for firefighters in the Killeen Fire Department known as the Killeen Firefighter's Relief and Retirement Fund (the "Fund"). The Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fund are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. The Fund is administered by the Board of Trustees of the Killeen Firefighter's Relief and Retirement Fund. The City does not have access to nor can it utilize assets within the retirement plan trust. The Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Killeen Firefighter's Relief and Retirement Fund at P.O. Box 497, Conroe, Texas 77305. See that report for all information about the plan fiduciary net position.

ii. Benefits Provided

Firefighters in the Killeen Fire Department are covered by the Fund which provides service retirement, death, disability, and termination benefits. These benefits fully vest after 20 years of credited service. Firefighters may retire at age 50 with 25 years or at age 55 with 20 years of service. A partially vested benefit is provided for paid firefighters who terminate employment with at least 10 but less than 20 years of service. If a terminated firefighter has a fully or partially vested benefit, he may retire starting on the date he would have satisfied service retirement eligibility if he had remained a Killeen firefighter. The present plan provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 58.40% of highest 60-month average salary plus 2.275% of highest 60-month average salary for each year of service in excess of 20.

A retiring firefighter who is at least 3.5 years beyond first becoming eligible for service retirement has the option to elect the Retroactive Deferred Retirement Option Plan (RETRO DROP) which will provide a lump sum benefit and a reduced monthly benefit. The reduced monthly benefit is based on the service and highest 60-monthly average salary as if he had terminated employment on his selected RETRO DROP benefit calculation date, which is no earlier than the later of the date which is 3.5 years following his earliest eligibility for retirement and the date two years prior to the date he actually retires. Upon retirement, the member will receive, in addition to his monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the Fund after the RETRO DROP benefit calculation date plus (2) the total of the monthly retirement benefits that member would have received between the RETRO DROP benefit calculation date and the date he retired under the Fund. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

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

iii. Members Covered by the Fund

In the September 30, 2016 actuarial valuation, the following numbers of members were covered by the Fund:

Retirees and beneficiaries currently receiving benefits	61
Inactive employees entitled to, but not yet receiving, benefits	9
Active employees and volunteers	224
Total	294

iv. Funding Policy

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

The funding policy of Fund requires contributions equal to 11% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The City currently contributes 13% of pay for each active firefighter according to the annual City budget process, but with an unwritten understanding between the City and the Fund's board that the rate will not be reduced. The actuarial valuation includes the assumption that the City contribution rate will be 13% over the unfunded actuarial accrued liability ("UAAL") amortization period and that the contributions for volunteers will continue each year. The costs of administering the Fund are paid from the Fund assets.

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the Board of Trustees (the "Board"). The Board selects and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the year ending September 30, 2016, the money-weighted rate of return was 9.83%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

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

v. Net Pension Liability

The City of Killeen's NPL was measured at September 30, 2017 and the TPL used to calculate the NPL was determined by an actuarial valuation as of September 30, 2017.

Total pension liability	$56,501,748
Plan fiduciary net position	39,884,563
City's net pension liability	$16,617,185
Plan fiduciary net position as a percentage of the total pension liability	70.6%

a) Actuarial Assumptions

The TPL in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%	
Salary increases	3.25%	Plus promotion, step, and longevity increases that vary by service
Investment rate of re	7.75%	Net of pension plan investment expense, including inflation

Mortality rates were based on the RP2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 4.57%) and by adding expected inflation (3.25%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.07% for adverse deviation. The target allocation and expected arithmetic net real rates of return for each major asset class are summarized in the following table:

Asset Class		Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Equities			
	Large cap domestic	30.0%	5.99%
	Small/mid cap domestic	10.0	6.75
	International developed	15.0	6.38
Fixed Income			
	Domestic core	18.5	1.41
	Direct lending	6.5	1.49
	Global	5.0	1.66
Alternatives			
	Tactical strategies	3.5	7.09
	Private equity	1.5	6.84
	Real estate	5.0	3.59
	Balanced fund	5.0	3.5
Cash		0.0	0.24
Total		100.0%	
Weighted Average			4.57%

b) Discount Rate

The discount rate used to measure the TPL was 7.75%. No projection of cash flows was used to determine the discount rate because the September 30, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the UAAL in 23 years. Because of the 23-year amortization period of the UAAL, the Fund's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on Fund investments of 7.75% was applied to all periods of projected benefit payments as the discount rate to determine the TPL.

c) Sensitivity of the NPL ability to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 7.75%, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's Net Pension Liability	$ 24,575,794	$ 16,617,185	$ 9,588,943

d) Fund Fiduciary Net Position

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

e) Changes in NPL

	Increase (Decrease)		
	Total Pension Liability (A)	**Plan Fiduciary Net Position (B)**	**Net Pension Liability (A) - (B)**
Changes for the year:			
Service cost	$ 2,047,015	$ -	$ 2,047,015
Interest	4,185,617	-	4,185,617
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	1,873,368	(1,873,368)
Contributions - employee	-	1,585,161	(1,585,161)
Net investment income	-	4,603,775	(4,603,775)
Benefit payments, including refunds of employee contributions	(3,383,661)	(3,383,661)	-
Administrative expense	-	(136,910)	136,910
Other changes	-	-	-
Net Changes	2,848,971	4,541,733	(1,692,762)
Balance at September 30, 2017	53,652,777	35,342,830	18,309,947
Balance at September 30, 2018	$ 56,501,748	$ 39,884,563	$ 16,617,185

vi. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the City's GASB 68 pension expense was $2,221,099. Amounts recognized in the fiscal year represent changes between the current and prior measurement dates.

vii. Deferred Outflows of Resources to Be Recognized in Pension Expense in Future Years

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 2,127,090
Changes in actuarial assumptions	497,114	185,730
Net difference between projected and actual investment earnings	-	248,898
Contributions subsequent to the measurement date	1,811,444	-
Total	$ 2,308,554	$ 2,561,718

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2019	$ 173,382
2020	109,466
2021	(678,335)
2022	(546,758)
2023	(173,336)
Thereafter	(949,024)
Total	$ (2,064,605)

The total of the contributions by the City to the Fund contributed subsequent to the measurement date of the NPL, September 30, 2017, through September 30, 2018, is a deferred outflow of resources that will be recognized as a reduction in the NPL in the fiscal year ending September 30, 2018.

H. Postemployment Benefits other than Pensions

1. Supplemental Death Benefits Fund

i. Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees.

Employers 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 member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

ii. Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2017 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	419
Inactive employees entitled to but not yet receiving benefits	159
Active employees	947
Total	1525

iii. Total OPEB Liability

The City's total OPEB liability of $2,607,535 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

iv. Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.31%*
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projects on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

v. Changes in the Total OPEB Liability

		Total OPEB Liability
Changes for the year:		
Service cost	$	115,257
Interest		85,013
Changes of assumptions		222,509
Benefit payments*		(13,299)
Net Changes		409,480
Beginning Balance		2,198,055
Ending Balance	$	2,607,535

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

vi. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's Total OPEB Liability	$ 3,184,664	$ 2,607,535	$ 2,164,844

vii. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of $238,568. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	$ 184,211	$ -
Contributions subsequent to the measurement date	12,523	-
Total	$ 196,734	$ -

$12,523 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2019.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30	Expense Amount
2019	$ 38,298
2020	38,298
2021	38,298
2022	38,298
2023	31,021
Total	$ 184,211

1. Postemployment Healthcare Plan

i. Plan Description

The City makes available health care benefits to all employees who retire from the City and who are receiving benefits from a City sponsored retirement program TMRS or the Fund through a single-employer defined benefit healthcare plan (the "Healthcare Plan"). This Healthcare Plan provides lifetime insurance, or until age 65 if eligible for Medicare, to eligible retirees, their spouses, and dependents through the City's group health insurance plan, which covers both active and retired members. Benefit provisions are established by management.

Current retirees in the Healthcare Plan at retirement are eligible to remain in the Healthcare Plan at the total blended contribution rate for active and retiree participants.

Participation in the Plan as of September 30, 2018 is summarized below:

Actives	1,172
Retirees	98
Beneficiaries	7
Spouses of Retirees	10
Total	1,287

ii. Funding Policy

The City has elected to subsidize premiums for the Plan and funding is provided on a pay-as-you-go basis. There are no assets accumulated in a trust.

iii. Total OPEB liability

The City's total OPEB liability of $8,067,864 was measured as of September 30, 2018 and was determined by an actuarial valuation as of that date.

iv. Actuarial Assumptions and Other Inputs

The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Salary increases	3.00%
Discount rate	4.18%*
Actuarial Cost Method	Entry Age Normal
Mortality	TMRS Retirees: RP 2014 Combined Healthy Mortality Table projected using Scale MP-2017. Firefighter Retirees: RP 2000 Combined Healthy Mortality Table projected to 2024 using Scale AA.
Health care trend rates	Trend was calculated assuming an implied inflation rate of 2.3% per year, and actual premiums. The short-term trend rate for Pre-65 retirees starts off at 4.2% and reflects the ACA Excise Tax effective 2022.
Participation rates	20% of TMRS members and 50% of Firefighter members are assumed to elect retiree medical coverage upon retirement. For future retirees it is assumed that husbands are three years older than their wives and that 15% of TMRS members and 30% of Firefighter members making it to retirement are assumed to be married and elect spouse coverage.

* The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The plan has not had a formal actuarial experience study performed.

v. Changes in the Total OPEB Liability

	Total OPEB Liability
Changes for the year:	
Service cost	$ 614,080
Interest	351,597
Changes of assumptions	(1,064,361)
Difference between expected and actual experience	(624,879)
Benefit payments	(502,978)
Net Changes	(1,226,541)
Beginning balance	9,294,405
Ending Balance	$ 8,067,864

Changes of assumptions reflect a change in the discount rate from 3.64% as of September 30, 2017 to 4.18% as of September 30, 2018.

There were no changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

vi. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the Plan's total OPEB liability, calculated using a discount rate of 4.18%, as well as what the Plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	1% Decrease in Discount Rate (3.18%)	Discount Rate (4.18%)	1% Increase in Discount Rate (5.18%)
City's Total OPEB Liability	$ 9,024,211	$ 8,067,864	$ 7,214,802

vii. Sensitivity of Total OPEB liability to the Healthcare Costs Trend Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the healthcare cost trend rates, the following presents the Plan's total OPEB liability, calculated using the assumed trend rates, as well as what the Plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
City's Total OPEB Liability	$ 6,870,891	$ 8,067,864	$ 9,535,045

viii. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB
For the year ended September 30, 2018, the City recognized OPEB expense of $782,064.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 556,956
Changes in actuarial assumptions	-	948,670
Total	$ -	$ 1,505,626

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30	OPEB Expense Amount
2019	$ 183,613
2020	183,613
2021	183,613
2022	183,613
2023	183,613
Thereafter	587,561
Total	$ 1,505,626

I. Construction and Other Significant Commitments

The City has active construction projects as of September 30, 2018. At year end, the City's construction commitments for governmental activities are as follows:

Project Title	Expended to Date	Remaining Commitment
Stagecoach improvements	17,965,723	1,329,462
Trimmier	7,273,456	64,017
Family Aquatic Center	264,720	23,104
KDEC Downtown I	-	30,000
Heritage Park Trail	1,289,336	2,269,455
City Councel Chambers	119,606	326,340
Fire Emergency Operation Center	15,500	9,000
Rosewood extension	1,545,930	3,903,594
Total	$ 28,474,271	$ 7,954,972

At year end, the City's construction commitments for business-type activities are as follows:

Project Title	Expended to Date		Remaining Commitment	
Septic Tank Elimination	$	789,340	$	20,749
Water supply project		162,645		1,700,534
Aviation CFC projects		35,361		697,605
Aviation PFC projects		653,347		274,577
S. Nolan Creek at Odom		1,778,089		5,266
Patriotic Ditch		70,805		14,576
Bermuda		991,580		154,348
Valley Ditch		32,950		59,750
Drainage Projects		434,552		351,063
Total	$	4,948,669	$	3,278,468

The City is committed under various leases for data processing and police equipment. These leases are considered for accounting purposes to be replaced in the ordinary course of business with similar leases. Future aggregate annual commitments are not material to the City's financial statements.

In 2003, the City completed the process of moving airline operations from the Killeen Municipal Airport to Ft. Hood's Robert Gray Army Airfield as part of a joint use agreement with the U.S. Army. This is a regional intermodal transportation project that involved the construction of a new terminal building, aircraft parking aprons, east side parallel taxi-way, fuel and maintenance facilities, major access roadways to the terminal site, and vehicle parking facilities. The City currently has an operating lease agreement (the "Lease") with the Department of the Army for joint use of a tract of land containing 345 acres and exclusive use of a tract of land containing approximately 76.571 acres. The Lease term is for 50 years, with an option to renew for an additional 50 years if the City is in full compliance with the terms of the Lease.

In lieu of paying rent on the Lease, the City is required to perform certain services related to the property, such as maintenance, protection, repairs, site restoration, and improvements. Currently, no estimate is available for the annual amount of such expenditures related to satisfying the requirements of the Lease.

The City, along with other participating entities, entered into an agreement with Bell County Water Control Improvement District No. 1 ("WCID No. 1") to enable WCID No. 1 to build a $50 million water treatment plant that will supplement the City's water needs through 2050. The treatment plan is expected to be completed in spring 2019 and is expected to provide an extra 10 million gallons per day once operational. WCID No. 1 agrees to deliver and meter water required by the City. WCID No. 1 bills for water purchased, at rates that are reviewed and adjusted periodically. The rates are determined by amounts necessary to retire WCID No. 1 debt and cover maintenance and operating expenses. During the fiscal year ended September 30, 2018, the City purchased 5.4 billion gallons of water (70 million used for city's facilities) for a total charge of $3,574,870 from WCID No. 1. In addition, it paid WCID No. 1 $2,940,792 for its share of debt service related to bonds issued for the treatment plant.

The City initially funded $5 million to be used to offset charges to the WCID No. 1 in years 2015 through 2019. The City is contractually obligated to purchase water from WCID No. 1, which includes rates for normal operation and maintenance and fixed costs to cover debt service obligation of WCID No. 1. The City's fixed costs to cover its proportional share of WCID No. 1 debt service is based on the Maximum Daily Rate of Delivery (MDRD) of water. The agreements increased the City's total MDRD from 32 million gallons per day (MGD) by 10 MGD, for a total of 42 MGD. The City portion of the debt service based on the MDRD is 51.5%. The total fixed costs (WCID No. 1 debt service requirements) that the City is obligated to pay is $63 million at September 30, 2018. Normal maintenance and operational costs will vary by year and allocated to the City based on its proportional share of the plant.

J. Risk Management

The City has insurable risks in various areas, including property, casualty, automobile, airport, surety bonding, comprehensive liability, and workers' compensation. The City has obtained insurance against risks through commercial carriers for airport liability and surety bonding. There were no related settlements in excess of insurance coverage during the past three fiscal years. All other insurance against risk is through the Texas Municipal League (TML) Intergovernmental Risk Pool, as discussed below. Management believes the amount and types of coverage are adequate to protect the City from losses which could reasonably be expected to occur.

A public entity risk pool is a cooperative group of governmental entities joining together to finance an exposure, liability, or risk. The City participates in the TML Intergovernmental Risk Pool (the "Pool") for various risk areas, wherein member cities pool risks and funds and share in the costs of losses. Claims against the City in each respective are expected to be paid by the Pool. However, in the event the Pool became insolvent, or otherwise is unable to pay claims, the City may have to pay the claims.

K. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts 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.

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. With the exception of medical and workers' compensation claims, no other claim liabilities are reported at year end.

L. Long-Term Liabilities

A summary of long-term debt transactions, including current portions, for the year ended September 30, 2018 is as follows:

Governmental Activities

	September 30, 2017	PY Adjustment	Additions	Deletions	September 30, 2018	Due Within One Year
General obligation bonds	$ 119,060,000	$ -	$ 33,455,000	$ (9,725,000)	$ 142,790,000	$ 5,250,000
Tax/revenue certificates of obligation	63,500,000	-	-	(33,695,000)	29,805,000	3,870,000
Unamortized bond premiums/(discounts)	16,665,784	-	3,877,980	(2,092,160)	18,451,604	-
Total bonds payable	199,225,784	-	37,332,980	(45,512,160)	191,046,604	9,120,000
Capital Leases	-	1,062,736	483,616	(405,764)	1,140,588	422,600
Compensated absences	11,271,070	-	3,404,327	(2,675,081)	12,000,316	3,404,327
Total OPEB liability	-	9,211,058	-	(673,217)	8,537,841	-
Net pension liability	48,157,541	-	-	(16,919,644)	31,237,897	-
Governmental activities long-term debt	$ 258,654,395	$ 10,273,794	$ 41,220,923	$ (66,185,866)	$ 243,963,246	$ 12,946,927

Business-Type Activities

	September 30, 2017	PY Adjustment	Additions	Deletions	September 30, 2018	Due Within One Year
Revenue bonds	$ 45,540,000	$ -	$ -	$ (4,335,000)	$ 41,205,000	$ 4,480,000
General obligation bonds	10,620,000	-	-	(690,000)	9,930,000	720,000
Certificates of obligation	185,000	-	-	(90,000)	95,000	95,000
Unamortized bond premiums/(discounts)	4,584,638	-	-	(405,544)	4,179,094	
Total bonds payable	60,929,638	-	-	(5,520,544)	55,409,094	5,295,000
Capital Leases	-	283,435	381,471	(152,061)	512,845	89,661
Compensated absences	727,713	-	423,172	(369,490)	781,395	423,170
Total OPEB liability	-	2,281,400	-	(143,842)	2,137,558	-
Net pension liability	5,135,510	-	-	(4,414,393)	721,117	-
Business-type activities long-term debt	$ 66,792,861	$ 2,564,835	$ 804,643	$ (10,600,330)	$ 59,562,009	$ 5,807,831

Long-term debt at September 30, 2018 is comprised of the following:

Governmental Activities

	Interest Rates to Maturity (%)	Issue Date	Maturity Date	Original Issue	Outstanding
General Obligation Bonds:					
2009 Various purpose	3.00-4.80	2009	2019	$ 13,175,000	$ 430,000
2010 Refunding HOT	2.00-4.00	2010	2030	8,500,000	2,845,000
2010 Refunding	2.00-4.00	2010	2026	4,830,000	1,660,000
2011 Refunding	2.00-5.00	2011	2023	6,875,000	3,590,000
2012 Various purpose and refunding	2.00-5.00	2012	2032	19,500,000	15,910,000
2013 Refunding	2.00-5.00	2013	2032	37,290,000	36,025,000
2014 Refunding	2.00-5.00	2014	2034	10,610,000	5,430,000
2015 Refunding	3.00-4.00	2015	2034	8,640,000	8,640,000
2016 Refunding	2.00-5.00	2016	2034	34,715,000	34,715,000
2016 Refunding HOT	4.00-5.00	2016	2031	735,000	735,000
2017 Refunding	2.00-5.00	2017	2036	30,625,000	30,020,000
2017 Refunding HOT	2.00-5.00	2017	2036	2,830,000	2,790,000
Total General Obligation Bonds				178,325,000	142,790,000
Tax/Revenue Certificates of Obligation:					
2009 Various purpose	2.75-4.35	2009	2019	6,500,000	320,000
2011 Various purpose	2.00-5.00	2011	2036	32,040,000	2,080,000
2011 PTF 195/201	2.00-5.00	2011	2020	18,060,000	1,355,000
2011A PTF 190/2410	2.00-5.00	2011	2024	31,400,000	7,785,000
2012 Various Purpose and Refunding	2.00-3.00	2012	2032	6,765,000	5,705,000
2014 Various Purpose	2.00-5.00	2014	2039	13,060,000	12,560,000
Total Tax/Revenue Certificates of Obligation				107,825,000	29,805,000
Total Governmental Activities				$286,150,000	$172,595,000

Business-Type Activities

	Interest Rates to Maturity (%)	Issue Date	Maturity Date	Original Issue	Outstanding
Revenue Bonds:					
2010 Refunding	2.00-4.00	2010	2021	$ 6,870,000	$ 1,910,000
2011 Refunding	2.00-5.00	2011	2022	11,135,000	6,030,000
2012 Refunding	2.98	2012	2027	7,365,000	7,050,000
2013 Refunding and Improvement	2.00-5.00	2013	2033	29,030,000	25,540,000
2013 Refunding	0.40-1.62	2013	2019	8,270,000	675,000
Total Revenue Bonds				62,670,000	41,205,000
General Obligation Bonds:					
2012 Various Purpose and Refunding	2.00-5.00	2012	2030	6,215,000	5,270,000
2013 Refunding	2.00-5.00	2013	2026	3,935,000	3,515,000
2015 Refunding	3.00-4.00	2015	2027	300,000	300,000
2016 Refunding	3.00-5.00	2016	2029	845,000	845,000
Total General Obligation Bonds				11,295,000	9,930,000
Tax/Revenue Certificates of Obligation:					
2009 Various purpose	2.75-4.35	2009	2019	2,000,000	95,000
Total Tax/Revenue Certficates of Obligation				2,000,000	95,000
Total Business-Type Acitivities				$75,965,000	$51,230,000

General Obligation Bonds

Annual debt service requirements to maturity for General Obligation Bonds are as follows:

	Governmental Activities		Business-Type Activities	
Year Ending September 30	Principal	Interest	Principal	Interest
2019	$5,250,000	$6,241,350	$720,000	$448,913
2020	5,775,000	6,044,550	830,000	423,513
2021	7,840,000	5,832,650	860,000	391,613
2022	8,175,000	5,510,450	905,000	350,413
2023	8,580,000	5,131,050	950,000	305,163
2024-2028	49,240,000	19,115,100	4,430,000	$794,815
2029-2033	44,735,000	7,683,456	1,235,000	$58,551
2034-2036	13,195,000	871,400	-	-
Total	$142,790,000	$56,430,006	$9,930,000	$2,772,981

Revenue Bonds

The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. These revenue bonds constitute special obligations of the City solely secured by a lien and a pledge of the net revenues of the water and sewer system established by the bond ordinances and covenants. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amount and certain financial ratios are met. Management of the City believes that it is in compliance with all significant requirements as of September 30, 2018. Revenue bond debt service requirements to maturity are as follows:

	Business-Type Activities	
Year Ending September 30	Principal	Interest
2019	$4,480,000	$1,690,688
2020	3,935,000	1,528,158
2021	4,125,000	1,371,421
2022	3,675,000	1,191,934
2023	3,880,000	1,019,298
2024-2028	14,065,000	3,097,863
2029-2033	7,045,000	1,019,200
Total	$41,205,000	$10,918,562

Tax and Revenue Certificates of Obligation

Annual debt service requirements to maturity for Tax and Revenue Certificates of Obligation are as follows:

	Governmental Activities		Business-Type Activities	
Year Ending September 30	Principal	Interest	Principal	Interest
2019	$3,870,000	$1,198,873	$95,000	$3,135
2020	3,715,000	1,024,713	-	-
2021	2,040,000	857,163	-	-
2022	2,130,000	769,813	-	-
2023	2,200,000	705,213	-	-
2024-2028	5,980,000	2,682,300	-	-
2029-2033	5,025,000	1,701,300	-	-
2034-2038	3,950,000	726,550	-	-
2039	895,000	38,750	-	-
Total	$29,805,000	$9,704,675	$95,000	$3,135

All bonded debt requires semiannual payments of interest. The various bond ordinances provide the City with rights of redemption at par, plus accrued interest at specified future dates.

The bond indentures required the establishment and maintenance of interest and sinking funds and reserve funds in varying amounts. In addition, there are restrictions concerning the maintenance of sufficient rates charged for services to users to generate enough funds for debt service requirements, the maintenance of accounting records and insurance, as well as reporting the results of the City's operations to specified major bond holders. The City is in compliance with all significant requirements and restrictions.

On December 21, 2017, the City issued $33,455,000 of general obligation refunding bonds Series 2017 to provide resources for future debt service payments of $2,860,000 of 2010 general obligation refunding bonds, $1,225,000 of 2010 general obligation bonds, $12,145,000 of 2011 certificates of obligation, $2,300,000 of 2011 pass through funding bonds, and $15,700,000 of 2011A pass through bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by $2,711,626. This amount is being amortized over the life of the new debt issued. This advanced refunding was undertaken to reduce total debt service payments over the next 18 years by $2,651,383 and resulted in an economic gain of $1,959,591.

The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending	Govermental Activities			Business-Type Activities		
Sept. 30	Principal	Interest	Total	Principal	Interest	Total
2019	$422,601	$51,783	$474,384	$89,660	$20,371	$ 110,031.00
2020	397,669	33,825	431,494	213,211	15,499	228,710
2021	192,558	14,550	207,108	209,974	5,832	215,806
2022	127,760	2,338	130,098	-	-	-
Total	$1,140,588	$102,496	$1,243,084	$512,845	$41,702	$ 554,547.00

The asset acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Assets:		
Machinery and equipment	$2,321,703	$727,449
Less: Accumulated depreciation	(1,181,115)	(214,604)
	$1,140,588	$512,845

M. Fund Balance

Minimum fund balance policy. The City Council has adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) in the general fund and net position for the enterprise funds collectively. The target level is set at 22% of operating expenditures/expenses. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur. If fund balance falls below the minimum target level because it has been used, essentially as a "revenue" source, as dictated by current circumstances, the policy provides for the development of a plan for City Council that addresses the shortfall.

N. Inter-fund Receivables and Payables

The composition of inter-fund balances as of September 30, 2018:

Receivable Fund	Payable Fund	Amount
General	Total nonmajor governmental funds	$ 66,397

The outstanding balances between funds are comprised of working capital loans made to several nonmajor governmental funds which the general fund expects to collect in the subsequent year.

O. Inter-fund Transfers

The composition of inter-fund transfers for the year ended September 30, 2017 is as follows:

	Transfers In					
			Other	Enterprise Funds		
			Governmental	Solid	Water and	
	General	Debt Service	Funds	Waste	Sewer	Total Funds
Transfers Out:						
General Fund	$ -	$ -	$ 3,770,930	$ -	$ -	$ 3,770,930
Other Governmental Funds	-	-	517,300	-	-	517,300
Solid Waste Fund	2,683,706	-	-	-	-	2,683,706
Water and Sewer Fund	6,133,767	-	-	-	-	6,133,767
Drainage Fund	245,652	-	750,000	-	-	995,652
Total Transfers	$ 9,063,125	$ -	$ 5,038,230	$ -	$ -	$ 14,101,355

Transfers are used to move revenues from the fund responsible for collecting them to the fund responsible for expending them as required by statute or budget.

Further, during the year ended September 30, 2018, the City made the following one-time transfers:

- $750,000 was transferred to the general fund capital improvement program from the drainage fund.

P. Discretely Presented Component Unit

Capital asset activity for the KEDC for the year ended September 30, 2018 was as follows:

	Balance 9/30/2017	Additions	Deletions	Reclassifications	Balance 9/30/2018
Capital assets not being depreciated:					
Land					
KEDC - owned	$ 244,255	$ -	$ 9,018	$ -	$ 235,237
Industrial Park	1,680,837	-	-	-	1,680,837
Convergys	110,000	-	-	-	110,000
Enterprise	100,000	-	-	-	100,000
First National Bank	90,303	-	-	-	90,303
Total capital assets not being depreciated	2,225,395	-	9,018	-	2,216,377
Capital assets being depreciated:					
Buildings					
Presidium	3,563,745	24,107	-	-	3,587,852
First National Bank/Raytheon	1,850,700	-	-	-	1,850,700
Entrance Sign	31,382	-	-	-	31,382
Total capital assets being depreciated	5,445,827	24,107	-	-	5,469,934
Less accumulated depreciation for:					
Buildings	2,725,700	147,633	-	-	2,873,333
Total accumulated depreciation	2,725,700	147,633	-	-	2,873,333
Total capital assets being depreciated, net	2,720,127	(123,526)	-	-	2,596,601
KEDC capital assets, net	$ 4,945,522	$ (123,526)	$ 9,018	$ -	$ 4,812,978

V. <u>Tax Abatements</u>

The City of Killeen has adopted a tax abatement policy (the "Policy"). Under the Policy, a property owner agrees to construct certain improvements on its property and the City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the abatement agreement (the "Agreement"). The Agreement could last for a period of up to 10 years. The City has adopted criteria for granting tax abatements which establish guidelines regarding the number of jobs to be created and the amount of new value to be added by the taxpayer in return for the abatement. The Agreements provide for recapture in the event of material breach.

The City has entered into a Chapter 380 Retail Economic Development Program and Performance Agreement with Northwest Tidwell, Ltd. (the "380 Agreement") to construct a multitenant retail development that includes a Super Walmart facility (the "Project") generally located near the southwest corner of the intersection of West Stan Schlueter Loop and Bunny Lane within the City. Pursuant to the 380 Agreement, the City will provide an annual sales tax rebate of one half of 1% collected by the City from the sale of taxable items at the Project (less certain administrative fees and other expenses) until the earlier of (a) $1,010,000 has been rebated or (b) five years after the opening of the Project. The 380 Agreement was fully executed on May 19, 2014 and expires approximately five years after the opening of the Project, which occurred on April 22, 2015.

The City has entered into a 380 Agreement with La Cascata Retail Village LLP to construct a multitenant retail development (the "Project") generally located near the western border of Skylark Field within the City. Pursuant to the 380 Agreement, the City will provide an annual sales tax rebate of one half of 1% collected by the City from the sale of taxable items at the Project (less certain administrative fees and other expenses) until the earlier of (a) $3,600,000 has been rebated or (b) five years after the opening of the Project. The 380 Agreement was fully executed on October 27, 2015 and expires approximately five years after the opening of the Project, which is currently under construction.

VI. Restatement of Fund Balance/Net Position

The City has restated beginning net position to record the following:

- Total OPEB liability, deferred outflows and net OPEB obligation have been restated due to implementation of GASB 75.
- Franchise fee receivable has been restated to include fees received for prior period.
- Building and infrastructure accumulated depreciation have been restated due to a calculation error in prior period.
- Capital lease asset, accumulated depreciation and capital lease payable have been restated due to capital lease previously reported as operating leases.

	Governmental Activities	Internal Service Funds
Beginning net position, as reported	$ 27,464,806	$ 2,911,478
Total OPEB Liability	(9,211,058)	(47,618)
Deferred outflows	7,584	212
Net OPEB obligation	2,610,244	-
Franchise fee receivables	1,132,390	-
Building accumulated depreciation	(1,116,997)	-
Infrastructure accumulated depreciation	3,228,554	-
Capital lease asset	1,838,086	1,298,727
Capital lease accumulated depreciation	(775,350)	(567,314)
Capital lease payable	(1,062,736)	(731,413)
Beginning net position, as restated	$ 24,115,523	$ 2,864,072

	Aviation	Solid Waste	Water and Sewer	Drainage	Business-Type Activities
Beginning net position, as reported	$ 71,213,233	$ 7,430,919	$ 134,921,828	$ 11,448,925	$ 225,014,905
Total OPEB liability	(503,685)	(811,600)	(905,596)	(60,519)	(2,281,400)
Deferred outflows	333	748	848	269	2,198
Capital lease asset	-	388,728	-	-	388,728
Capital lease accumulated depreciation	-	(105,293)	-	-	(105,293)
Capital lease payables	-	(283,435)	-	-	(283,435)
Beginning net position, as restated	$ 70,709,881	$ 6,620,067	$ 134,017,080	$ 11,388,675	$ 222,735,703

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law*.]

CITY OF KILLEEN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING BONDS
SERIES 2019
IN THE AGGREGATE PRINCIPAL AMOUNT OF $6,425,000

AS BOND COUNSEL FOR THE CITY OF KILLEEN, TEXAS (the "City") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds and in the ordinance of the City adopted on September 24, 2019, authorizing the issuance of the Bonds and a Pricing Certificate executed by the City's authorized Pricing Officer on the date of sale of the Bonds (collectively, the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent Constitution and laws of the State of Texas, certified copies of the pertinent proceedings of the City, and other pertinent documents authorizing and relating to the issuance of said Bonds, including the executed Bond (Bond Number R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, constitute valid and legally binding special obligations of the City, except as the enforceability thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion; and that the Bonds are secured by and payable from a lien on and pledge of the Net Revenues of the City's combined Waterworks and Sewer System (the "System"). The City has reserved the right, subject to the covenants and conditions stated in the Ordinance, to issue additional Parity Debt payable, together with any other outstanding Parity Debt, from and secured by a lien on and pledge of the Net Revenues of the System on a parity with the Bonds. The holders of the Bonds are not entitled to demand payment thereof out of any money raised by taxation.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds are excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, including the Verification Report of Public Finance Partners LLC, the accuracy of which we have not independently verified, and assume compliance by the City with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed and refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the City.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of the City and the Net Revenues of the System. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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