OFFICIAL STATEMENT

August 6, 2019

(See "Continuing Disclosure of Information" herein)

**Ratings:**
**S&P: "AA-"**
**Fitch: "AA"**
**See "OTHER INFORMATION – Ratings" herein**

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

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein.

THE BONDS **HAVE NOT BEEN** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

**$19,890,000**
**CITY OF HUNTSVILLE, TEXAS**
**(Walker County)**
**GENERAL OBLIGATION BONDS, SERIES 2019**

**Dated Date: As of the Date of Delivery** **Due: August 15, as shown on page 2**
**Interest to accrue from Date of Delivery**

**PAYMENT TERMS**. . . Interest on the $19,890,000 City of Huntsville, Texas, General Obligation Bonds, Series 2019 (the "Bonds"), will accrue from the Date of Delivery (defined below), will be payable February 15 and August 15 of each year, commencing February 15, 2020, until maturity or prior redemption, 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 ("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 within a maturity. **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" herein. The initial Paying Agent/Registrar is ZB, National Association, dba Amegy Bank, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE**. . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 1331 of the Texas Government Code, as amended, an election held in the City of Huntsville, Texas (the "City") on November 8, 2016 and an ordinance adopted by the City Council of the City (the "Ordinance"). The Bonds constitute direct obligations of the City, payable from a continuing ad valorem tax levied on all taxable property within the City within the limits prescribed by law, as provided in the Ordinance (see "THE BONDS - Authority for Issuance").

**PURPOSE**. . . Proceeds from the sale of the Bonds will be used to (i) construct, acquire, improve, renovate and equip City public safety facilities for police and fire protection including the acquisition of any necessary sites and related infrastructure, demolition and other costs, and (ii) pay legal, fiscal, engineering and architectural fees in connection with these projects and to pay costs of issuance of the Bonds.

**CUSIP PREFIX: 447258**
**MATURITY SCHEDULE & 9 DIGIT CUSIP**
**See Schedule on Page 2**

**LEGALITY**. . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Austin, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

**DELIVERY**. . . It is expected that the Bonds will be available for delivery through DTC on September 6, 2019 (the "Date of Delivery").

**CUSIP Prefix: 447258[1]**

**MATURITY SCHEDULE**

| Principal Amount | 15-Aug Maturity | Interest Rate | Initial Yield | CUSIP Suffix[1] |
|---|---|---|---|---|
| $ 450,000 | 2020 | 3.000% | 1.010% | PQ1 |
| 430,000 | 2021 | 3.000% | 1.080% | PR9 |
| 440,000 | 2022 | 3.000% | 1.130% | PS7 |
| 455,000 | 2023 | 3.000% | 1.150% | PT5 |
| 470,000 | 2024 | 3.000% | 1.180% | PU2 |
| 485,000 | 2025 | 3.000% | 1.250% | PV0 |
| 500,000 | 2026 | 3.000% | 1.350% | PW8 |
| 515,000 | 2027 | 3.000% | 1.450% | PX6 |
| 530,000 | 2028 | 3.000% | 1.550% | PY4 |
| 545,000 | 2029 | 3.000% | 1.650% [2] | PZ1 |
| 560,000 | 2030 | 3.000% | 1.800% [2] | QA5 |
| 575,000 | 2031 | 3.000% | 2.000% [2] | QB3 |
| 595,000 | 2032 | 3.000% | 2.100% [2] | QC1 |
| 615,000 | 2033 | 3.000% | 2.200% [2] | QD9 |
| 630,000 | 2034 | 3.000% | 2.300% [2] | QE7 |
| 650,000 | 2035 | 3.000% | 2.400% [2] | QF4 |
| 670,000 | 2036 | 3.000% | 2.500% [2] | QG2 |
| 690,000 | 2037 | 3.000% | 2.550% [2] | QH0 |
| 710,000 | 2038 | 3.000% | 2.600% [2] | QJ6 |
| 730,000 | 2039 | 3.000% | 2.650% [2] | QK3 |
| 755,000 | 2040 | 3.000% | 2.680% [2] | QL1 |
| 775,000 | 2041 | 3.000% | 2.700% [2] | QM9 |
| 800,000 | 2042 | 3.000% | 2.720% [2] | QN7 |
| 825,000 | 2043 | 3.000% | 2.740% [2] | QP2 |
| 850,000 | 2044 | 3.000% | 2.760% [2] | QQ0 |
| 875,000 | 2045 | 3.000% | 2.770% [2] | QR8 |
| 900,000 | 2046 | 3.000% | 2.780% [2] | QS6 |
| 925,000 | 2047 | 3.000% | 2.790% [2] | QT4 |

**$1,940,000 3.000% Term Bonds due August 15, 2049, priced to yield 2.800%, CUSIP Suffix: QV9**

**(Interest to accrue from the Date of Delivery)**

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions, including but not limited to, a refunding in whole or in part of such maturity, or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

(2) Yield shown is yield to first redemption date, August 15, 2028.

**OPTIONAL REDEMPTION**. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2029, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

**MANDATORY SINKING FUND REDEMPTION . . .** The Bonds maturing on August 15, 2049 (the "Term Bonds") are subject to mandatory sinking fund redemption as described herein (see "THE BONDS – Mandatory Sinking Fund Redemption").

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

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

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

*THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.*

*NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE INITIAL PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.*

*IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER 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 INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY OR OTHER MATTERS DESCRIBED HEREIN. SEE "CONTINUING DISCLOSURE OF INFORMATION" FOR A DESCRIPTION OF THE CITY'S UNDERTAKING TO PROVIDE CERTAIN INFORMATION ON A CONTINUING BASIS.*

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

*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, Rule 15c2-12.*

## TABLE OF CONTENTS



The cover page hereof, this page, the Appendices 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 CITY** .................................... The City of Huntsville, Texas (the "City"), is a political subdivision and home-rule municipal corporation of the State of Texas (the "State"), located in Walker County, Texas. The City covers approximately 31 square miles (see "INTRODUCTION - Description of the City").

**THE BONDS** ................................. The $19,890,000 City of Huntsville, Texas, General Obligation Bonds, Series 2019 are issued as serial Bonds maturing on August 15 in each of the years 2020 through 2047, and as Term Bonds maturing on August 15, 2049 (see "THE BONDS - Description of the Bonds").

**PAYMENT OF INTEREST** ............. Interest on the Bonds accrues from the Date of Delivery of the Bonds to the Initial Purchaser, and is payable February 15, 2020, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds").

**AUTHORITY FOR ISSUANCE** ......... The Bonds are authorized and issued pursuant to the Constitution and general laws of the State, particularly Chapter 1331, Texas Government Code, as amended, an election held in the City on November 8, 2016 and an ordinance passed by the City Council of the City (the "Ordinance") (see "THE BONDS - Authority for Issuance").

**SECURITY FOR THE BONDS**......................................... The Bonds are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the Ordinance authorizing the Bonds (see "THE BONDS - Security and Source of Payment").

**NOT QUALIFIED TAX-EXEMPT OBLIGATIONS** ............................... The City **has not** designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

**REDEMPTION** .............................. The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption"). Additionally, the Term Bonds are subject to mandatory sinking fund redemption as more particularly described herein (see "THE BONDS – Mandatory Sinking Fund 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, subject to the matters described under the caption "TAX MATTERS" herein.

**USE OF PROCEEDS** ....................... Proceeds from the sale of the Bonds will be used to (i) construct, acquire, improve, renovate and equip City public safety facilities for police and fire protection including the acquisition of any necessary sites and related infrastructure, demolition and other costs, and (ii) pay legal, fiscal, engineering and architectural fees in connection with these projects and to pay costs of issuance of the Bonds.

**RATINGS** ..................................... The Bonds and the presently outstanding tax supported debt of the City are rated "AA-" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") and "AA" by Fitch Rating Services ("Fitch"), without regard to credit enhancement (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 payment of its bonded indebtedness.

## SELECTED FINANCIAL INFORMATION

| Fiscal Year Ended 9/30 | Estimated City Population[(1)] | Taxable Assessed Valuation[(2)] | Per Capita Taxable Assessed Valuation | G.O. Tax Debt Outstanding at End of Year | Per Capita G.O. Tax Debt | Ratio Tax Debt to Taxable Assessed Valuation | Percent Of Total Tax Collections |
|---|---|---|---|---|---|---|---|
| 2015 | 40,100 | $ 1,518,504,616 | $ 37,868 | $ 17,700,000 | $ 441 | 1.17% | 99.51% |
| 2016 | 41,208 | 1,587,519,051 | 38,525 | 15,505,000 | 376 | 0.98% | 99.25% |
| 2017 | 41,620 | 1,594,600,284 | 38,313 | 13,260,000 | 319 | 0.83% | 98.75% |
| 2018 | 41,710 | 1,724,122,094 | 41,336 | 11,190,000 | 268 | 0.65% | 98.82% |
| 2019 | 41,710 | 1,903,286,337 | 45,631 | 28,945,000 (3) | 694 (3) | 1.52% (3) | 95.83% (4) |

(1) Source: City Officials.
(2) As reported by the Walker County Appraisal District on the City's annual City Reported Property Value; subject to change during the ensuing year.
(3) Includes all ad valorem tax debt, self-supporting debt and the Bonds.
(4) Collections as of April 30, 2019.

## GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

| | For Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Beginning Balance | $ 11,654,872 | $ 13,421,825 | $ 12,911,178 | $ 11,939,696 (1) | $ 10,645,312 |
| Total Revenue | 18,841,658 | 18,681,702 | 16,924,516 | 16,511,922 | 13,894,015 |
| Total Expenditures | 21,931,226 | 21,780,606 | 19,672,705 | 18,500,092 | 16,733,399 |
| Other Financing Sources (Uses) | 5,245,924 | 1,331,951 | 3,258,836 | 2,959,652 | 3,290,598 |
| Prior Period Adjustments | - | - | - | - | - |
| Ending Balance | $ 13,811,228 | $ 11,654,872 | $ 13,421,825 | $ 12,911,178 | $ 11,096,526 |

(1) Restated.

For additional information regarding the City, please contact:

| | | |
|---|---|---|
| Steve Ritter | | W. Boyd London, Jr. |
| Director of Finance | | Marti Shew |
| City of Huntsville | or | Hilltop Securities Inc. |
| 1212 Avenue M | | 1201 Elm Street, Suite 3500 |
| Huntsville, TX 77340 | | Dallas, TX 75270 |
| (936) 291-5400 | | (214) 953-4000 |

## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

| City Council | Position | Term | Occupation |
|---|---|---|---|
| Andy Brauninger | Mayor | November 2019 | Retired |
| Joe Emmett | Council Member | November 2019 | Business Owner<br>Emmett plumbing |
| Tish Humphrey | Council Member | November 2019 | Business Owner<br>Curves |
| Ronald Allen | Council Member | November 2019 | Business Owner<br>Allen Tire Center |
| Joe Rodriquez | Council Member | November 2019 | Retired |
| Paul Davidhizar | Council Member | November 2020 | Headmaster<br>Alpha Omega Academy |
| Dee Howard Mullins | Council Member | November 2020 | Retired |
| Clyde Loll | Council Member | November 2020 | Corporate Director of QHSE |
| Mari Montgomery | Council Member | November 2020 | Business Owner<br>Mari Realty - Broker/Agent |

### SELECTED ADMINISTRATIVE STAFF

| Name | Position | Length of Service to the City |
|---|---|---|
| Aron Kulhavy | City Manager | 10 years |
| Brenda Poe | City Secretary | 4.5 years |
| Steve Ritter | Director of Finance | 17.5 years |

### CONSULTANTS AND ADVISORS

Auditors ........................................ Pattillo, Brown & Hill, L.L.P.
Waco, Texas

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

Financial Advisor ........................................ Hilltop Securities Inc.
Dallas, Texas

**OFFICIAL STATEMENT**

**RELATING TO**

**$19,890,000**
**CITY OF HUNTSVILLE, TEXAS**
**GENERAL OBLIGATION BONDS, SERIES 2019**

## INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $19,890,000 City of Huntsville, Texas, General Obligation Bonds, Series 2019 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined herein) except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City of Huntsville, Texas (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, Hilltop Securities Inc., Dallas, Texas.

**DESCRIPTION OF THE CITY**. . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1845, and first adopted its Home Rule Charter on September 28, 1968. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and Council members. The term of office is two years with the terms of the Mayor and eight Council members elected for staggered two-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 38,548, while the estimated 2019 population is 41,710. The City covers approximately 31 square miles.

## THE BONDS

**DESCRIPTION OF THE BONDS**. . . The Bonds are dated as of the Date of Delivery. The Bonds mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the Date of Delivery of the Bonds to the Initial Purchaser (defined herein), 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 of each year, commencing February 15, 2020, until maturity or prior redemption. 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 ("DTC") pursuant to the Book-Entry-Only System described herein. **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" herein.

**AUTHORITY FOR ISSUANCE**. . . The Bonds are being authorized and issued pursuant to the Constitution and general laws of the State, particularly Chapter 1331, Texas Government Code, as amended, an election held in the City on November 8, 2016, and the ordinance passed by the City Council of the City (the "Ordinance").

**SECURITY AND SOURCE OF PAYMENT**. . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Bonds.

**TAX RATE LIMITATION**. . . All taxable property within the City is subject to the assessment, levy, and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes. The Home Rule Charter limits the maximum bonded indebtedness of the City outstanding at any one time and payable from taxation in an amount not to exceed ten percent of the assessed valuation of all taxable property on the City's tax roll.

**OPTIONAL REDEMPTION**. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2029, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all the Bonds of any maturity or, sinking fund installments in the case of term Bonds, are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or other customary random method the Bonds, or portions thereof, within such maturity or, sinking fund installments in the case of term Bonds, to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY SINKING FUND REDEMPTION** . . . The Bonds maturing on August 15, 2049 (the "Term Bonds") are subject to mandatory sinking fund redemption in the amounts and at the price of par plus accrued interest to the redemption date on August 15 in the following years:

| Term Bonds<br>August 15, 2049 | |
|---|---|
| Year | Amount |
| 2048 | $ 955,000 |
| 2049 * | 985,000 |

* Maturity.

The particular Term Bonds to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method of random selection; provided, however that principal amount of the Term Bonds required to be redeemed on a mandatory redemption date shall be reduced, at the option of the City, by the principal amount of any Term Bonds which, at least forty-five (45) days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof and delivered to the Paying Agent Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above an not theretofore credited against a mandatory redemption requirement.

**NOTICE OF REDEMPTION**. . . Not less than 30 days prior to an optional redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE, PROVIDED THAT MONIES FOR THE PAYMENT OF THE REDEMPTION PRICE AND THE INTEREST ACCRUED ON THE PRINCIPAL AMOUNT TO BE REDEEMED TO THE DATE OF REDEMPTION ARE HELD FOR THE PURPOSE OF SUCH PAYMENT BY THE PAYING AGENT/REGISTRAR.

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

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

**DEFEASANCE**. . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal and premium, if any, on the Bonds, plus interest on the Bonds to the due date thereof is provided by irrevocably depositing with the Paying Agent/Registrar or another authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The City additionally has 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 authorizes the defeasance, 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 have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements, 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 will 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 for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

**AMENDMENTS**. . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder of the Bonds for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein 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 the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

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

**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 DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

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

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

Purchases of 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, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry 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 Participant to whose account 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 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. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository) with respect to the Bonds. In that event, the Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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

***Effect of Termination of Book-Entry-Only System***. . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City with respect the Bonds, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR**. . . The initial Paying Agent/Registrar for the Bonds is ZB, National Association, dba Amegy Bank, Houston, 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, trust company, financial institution 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 affected by the changes 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 with respect to the Bonds, printed Bonds will be issued to the registered owners of the Bonds and thereafter such printed 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 respective 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 "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar will be required to make any transfer, conversion, or exchange of a Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

**PAYMENT PROVISIONS**. . . Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent by United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption of a Bond upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

**RECORD DATE FOR INTEREST PAYMENT**. . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month (whether or not a business day).

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.

**REPLACEMENT BONDS**. . . If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and (b) upon furnishing the Paying Agent/Registrar with indemnity satisfactory to hold the City and the Paying Agent/Registrar harmless. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

**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 of the Bonds, 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 is controlled by equitable principles, and thus rests within 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 April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by the city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. The Texas Supreme Court reviewed Wasson again in *Wasson Interest, Ltd. V. City of Jacksonville*, 559 S.W. 3d 142 (Tex. 2018) and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. The Texas Supreme Court has ruled in *Tooke v.City of Mexia*, 197 S.W.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the 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 Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

**SOURCES AND USES OF BOND PROCEEDS**. . . Proceeds from the sale of the Bonds are expected to be expended approximately as follows:

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| **Sources of Funds** | |
| Par Amount of Certificates | $ 19,890,000.00 |
| Premium | 919,904.35 |
| **Total Sources** | $ 20,809,904.35 |
| | |
| **Use of Funds** | |
| Deposit to Project Construction Fund | $ 20,500,000.00 |
| Costs of Issuance | 147,488.58 |
| Underwriter's Discount | 162,415.77 |
| **Total Uses** | $ 20,809,904.35 |

## TAX INFORMATION

**AD VALOREM TAX LAW**. . . The appraisal of property within the City is the responsibility of the Walker County Appraisal District. Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code (the "the Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within Appraisal District is subject to review by an Appraisal Review Board within each respective Appraisal District, consisting of members appointed by the Board of Directors of each respective Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the appropriate Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000. Senate Joint Resolution 1 ("Senate Joint Resolution 1"), passed during the 84th Texas Legislature, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from $15,000 to $25,000 and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption. While Senate Joint Resolution 1 is not directly applicable to municipalities and counties, Senate Bill 1, which was also passed by the 84th Legislature, provides that if Senate Joint Resolution 1 was approved by the voters on November 3, 2015, then the governing body of a school district, municipality, or county is prohibited from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period running through December 31, 2019. Senate Joint Resolution 1 was approved by voters on November 3, 2015, and, therefore, such prohibition is in effect.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse (for so long as the spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as (i) personal property acquired or imported into the State and transported to another location inside or outside the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location inside or outside the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory.

Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding a public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking such official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body of the taxing unit rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt, taxes may continue to be imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, as amended, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote State or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

**PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS** . . . The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"effective tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"rollback tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.08, plus the debt service tax rate.

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per $100 of taxable value.

"unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate".

The City's tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

For the 2019 tax year, the procedures in this paragraph apply. After the assessor submits the appraisal roll, a designated officer or employee of the City is required to calculate its "rollback tax rate" and "effective tax rate". A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, and may not adopt a tax rate that exceeds the lower of its "rollback tax rate" or "effective tax rate" (as such terms are defined below) until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. The Property Tax Code provides that if the adopted tax rate exceeds the rollback tax rate, qualified voters of the city, by petition, may require that an election be held to determine whether or not to reduce the adopted tax rate to the rollback tax rate. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-effective tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

Effective January 1, 2020, the terms rollback tax rate and effective tax rate will be replaced, respectively, with the terms "voter-approval tax rate" and "no-new-revenue tax rate". Beginning with the 2020 tax year, the procedures in this paragraph and the following paragraphs apply. A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its "de minimis rate", an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its "voter-approval tax rate" using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

**The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Bonds**.

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

**ISSUER AND TAXPAYER REMEDIES . . .** Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value of at least $50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (See "– Public Hearing and Maintenance and Operation Tax Rate Limitations".) The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

**Property Assessment and Tax Payment**. . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

**Penalties and Interest**. . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

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

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment of the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**City Application of Tax Code**. . . The City currently grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $12,000; the disabled are also granted an exemption of $10,000.

The City has adopted Proposition 13, an ordinance freezing the amount of taxes for individuals 65 and older and for the disabled. This ordinance was passed on February 17, 2004, and was effective for fiscal year 2005 taxes.

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

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

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

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

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

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

**Tax Abatement Policy**

The City has established a tax abatement program to encourage economic development. Incentives available include abatement of ad valorem taxes for a period of time to be determined by various factors including jobs created and investment in property plants and equipment. To date, the City has granted three tax abatements. Two of the abatements expired in the years 2016 and 2017. The third tax abatement agreement began in FY 18 – 19 and provides for the following rebate percentages of any tax increment related to improvements on properties: 100% rebate for the first 5 years, then for the 10 years following it goes down 10% each year (90% then 80% then 70%, etc.) until in year 15 there is no longer any tax rebate.

**TAX INCREMENT REINVESTMENT ZONE**

The Tax Increment Reinvestment Zone ("TIRZ") was created in 2004. It expires in 2023. In 2009 a developer requested the City to create the TIRZ to develop a retail center. The developer and City entered into 2 agreements related to development of the retail center.

1. The developer agreed to install water, wastewater and street infrastructure which becomes City assets after the construction is complete and the City pays the developer the incremental property taxes captured from increased property values in the TIRZ until the developer is paid in full or until the TIRZ ends (i.e., 2023). Walker County is also a participant in this agreement and the County's commitment is 1/2 of the incremental property tax from increased property values with the TIRZ. The developer has constructed all infrastructure at a total cost of $3,587,000. To date payments to the developer through this fiscal year have been $1,354,537.

2. The City also entered into a 380 agreement with the developer to pay the developer 1/2 the sales tax of retailers locating within the retail center or if the retailer moved to the TIRZ from a different location already in the City then the developer would be paid 1/2 of any increment in sales tax (the difference between what the retailer had been collecting at their old location and collections at the new location in the retail center). This agreement terminated on June 12, 2019. To date payments to the developer through this fiscal year have been $2,592,055.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

| | | |
|---|---|---|
| 2018/2019 Market Valuation Established by Walker County Appraisal District (excluding totally exempt property) | | $ 1,971,913,588 |
| Less Exemptions/Reductions at 100% Market Value: | | |
| Over 65 Homestead Exemptions | $ 20,799,288 | |
| Disabled Persons | 1,397,294 | |
| Disabled Veterans | 6,851,839 | |
| Freeport Exemptions | 6,233,305 | |
| Total Productivity Value Loss | 28,216,449 | |
| Homestead Cap Adjustment | 4,915,081 | |
| Pollution Control | 213,995 | $ 68,627,251 |
| 2018/2019 Taxable Assessed Valuation | | $ 1,903,286,337 |
| General Obligation Debt Payable from Ad Valorem Taxes (as of 5/15/2019) | | |
| General Obligation Debt(1) | $ 11,190,000 | |
| The Bonds | 19,890,000 | $ 31,080,000 |
| Less: Self-Supporting Debt(2) | | 4,349,268 |
| Total Net General Obligation Debt Payable from Ad Valorem Taxes | | $ 26,730,732 |
| Interest & Sinking Fund Balance (as of 5/15/2019) | | 1,875,738 |
| Ratio of Net General Obligation Debt to Taxable Assessed Valuation | | 1.40% |

2019 Estimated Population - 41,710

Per Capita Taxable Assessed Valuation - $45,631

Per Capita Net Funded Debt - $641

(1) Includes all general obligation and other ad valorem tax debt. The above statement of indebtedness does not include outstanding debt issued through the Trinity River Authority.

(2) General obligation debt, in the amounts shown, for which repayment is provided from other revenue sources. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from these revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

| | Taxable Appraised Value, Fiscal Year Ending September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| Category | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | $ 862,493,440 | 43.74% | $ 822,430,667 | 45.75% | $ 741,955,800 | 44.28% |
| Real, Residential, Multi-Family | 408,322,271 | 20.71% | 286,138,989 | 15.92% | 258,804,180 | 15.45% |
| Real, Vacant Lots/Tracts | 47,344,208 | 2.40% | 44,566,792 | 2.48% | 38,784,483 | 2.31% |
| Real, Acreage (Land Only) | 29,906,936 | 1.52% | 30,741,340 | 1.71% | 29,138,120 | 1.74% |
| Real, Farm and Ranch Improvements | 15,328,641 | 0.78% | 16,671,340 | 0.93% | 16,854,840 | 1.01% |
| Real, Commercial | 389,508,052 | 19.75% | 362,043,034 | 20.14% | 350,286,894 | 20.90% |
| Real, Industrial | 12,730,210 | 0.65% | 12,911,890 | 0.72% | 12,210,800 | 0.73% |
| Real, Oil, Gas and Other Mineral Reserves | 1,930 | 0.00% | 1,930 | 0.00% | 1,930 | 0.00% |
| Real and Tangible Personal, Utilities | 25,157,140 | 1.28% | 27,300,340 | 1.52% | 25,763,800 | 1.54% |
| Tangible Personal, Commercial | 100,804,620 | 5.11% | 114,123,930 | 6.35% | 107,317,800 | 6.40% |
| Tangible Personal, Industrial | 45,385,720 | 2.30% | 49,408,220 | 2.75% | 61,786,780 | 3.69% |
| Tangible Personal, Mobile Home | 16,638,850 | 0.84% | 15,713,830 | 0.87% | 15,509,410 | 0.93% |
| Real, Inventory, Other | 18,291,570 | 0.93% | 15,609,430 | 0.87% | 17,225,050 | 1.03% |
| Total Appraised Value Before Exemptions | $1,971,913,588 | 100.00% | $1,797,661,732 | 100.00% | $ 1,675,639,887 | 100.00% |
| Adjustment | - | | - | | (5,939,600) | |
| Less: Total Exemptions/Reductions | 68,627,251 | | 73,539,638 | | 75,100,003 | |
| Taxable Assessed Value | $1,903,286,337 | | $1,724,122,094 | | $ 1,594,600,284 | |

| | Taxable Appraised Value, Fiscal Year Ending September 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Category | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | $ 715,142,524 | 43.17% | $ 647,634,037 | 42.33% |
| Real, Residential, Multi-Family | 255,005,200 | 15.39% | 239,042,110 | 15.62% |
| Real, Vacant Lots/Tracts | 36,725,323 | 2.22% | 33,565,870 | 2.19% |
| Real, Acreage (Land Only) | 27,868,370 | 1.68% | 23,449,330 | 1.53% |
| Real, Farm and Ranch Improvements | 16,586,360 | 1.00% | 15,489,550 | 1.01% |
| Real, Commercial | 329,641,121 | 19.90% | 294,949,639 | 19.28% |
| Real, Industrial | 12,344,570 | 0.75% | 11,873,400 | 0.78% |
| Real, Oil, Gas and Other Mineral Reserves | 1,930 | 0.00% | 1,930 | 0.00% |
| Real and Tangible Personal, Utilities | 23,694,130 | 1.43% | 22,043,940 | 1.44% |
| Tangible Personal, Commercial | 105,896,750 | 6.39% | 98,286,590 | 6.42% |
| Tangible Personal, Industrial | 102,533,860 | 6.19% | 117,565,640 | 7.68% |
| Tangible Personal, Mobile Home | 15,630,770 | 0.94% | 13,570,120 | 0.89% |
| Real, Inventory | 15,346,530 | 0.93% | 12,420,220 | 0.81% |
| Total Appraised Value Before Exemptions | $1,656,417,438 | 100.00% | $1,529,892,376 | 100.00% |
| Adjustment | 41,752,899 | | 99,480,966 | |
| Less: Total Exemptions/Reductions | 110,651,286 | | 110,868,726 | |
| Taxable Assessed Value | $1,587,519,051 | | $1,518,504,616 | |

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

| Fiscal Year Ended 9/30 | Estimated Population[(1)] | Taxable Assessed Valuation[(2)] | Taxable Assessed Valuation Per Capita | G.O. Tax Debt Outstanding at End of Year[(3)] | Ratio of G.O. Tax Debt to Taxable Assessed Valuation | G.O. Tax Debt Per Capita |
|---|---|---|---|---|---|---|
| 2015 | 40,100 | $ 1,518,504,616 | $ 37,868 | $ 17,700,000 | 1.17% | $ 441 |
| 2016 | 41,208 | 1,587,519,051 | 38,525 | 15,505,000 | 0.98% | 376 |
| 2017 | 41,620 | 1,594,600,284 | 38,313 | 13,260,000 | 0.83% | 319 |
| 2018 | 41,710 | 1,724,122,094 | 41,336 | 11,190,000 | 0.65% | 268 |
| 2019 | 41,710 | 1,903,286,337 | 45,631 | 28,945,000 [(4)] | 1.52% [(4)] | 694 [(4)] |

(1) Source: City Officials.
(2) As reported by the Appraisal District on the City's annual State Property Tax Reports; subject to change during the ensuing year.
(3) Includes self-supporting debt.
(4) Includes all general obligation and other ad valorem tax debt including the Bonds.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

| Fiscal Year Ended 9/30 | Tax Rate | General Fund | Interest and Sinking Fund | Tax Levy | % Current Collections | % Total Collections |
|---|---|---|---|---|---|---|
| 2015 | $ 0.41060 | $ 0.28620 | $ 0.12440 | $ 5,686,861 | 99.03% | 99.10% |
| 2016 | 0.38380 | 0.28330 | 0.10050 | 5,775,552 | 98.64% | 99.20% |
| 2017 | 0.38090 | 0.28380 | 0.09710 | 5,963,403 | 98.75% | 99.20% |
| 2018 | 0.36660 | 0.27450 | 0.09210 | 6,119,463 | 98.40% | 98.40% |
| 2019 | 0.34220 | 0.26200 | 0.08020 | 6,395,514 | 95.83% [(1)] | 95.83% [(1)] |

(1) Collections as of April 30, 2019.

**TABLE 5 - TEN LARGEST TAXPAYERS**

| Name of Taxpayer | Nature of Property | 2018/2019 Taxable Assessed Valuation [(1)] | % of Total Taxable Assessed Valuation |
|---|---|---|---|
| PEP-SHSU LLC | Commercial | $ 31,790,470 | 1.67% |
| C150 1300 Smither Drive LLC | Apartment Complex | 30,630,290 | 1.61% |
| American Campus Community | Apartments | 27,582,370 | 1.45% |
| Vesper Forum LLC | Apartment Complex | 23,701,680 | 1.25% |
| Campus Crest at Huntsville I LP | Apartment Complex | 22,090,180 | 1.16% |
| Hunt Encore LLC | Apartment Complex | 20,674,340 | 1.09% |
| Waypoint Sam Houston Owner LLC | Commercial | 19,915,340 | 1.05% |
| Entergy Texas Inc. | Electric Utility | 18,537,500 | 0.97% |
| Gateway Huntsville LLC | Apartment Complex | 17,926,670 | 0.94% |
| Lake Road HBJ Housing LP | Apartment Complex | 16,780,020 | 0.88% |
| | | $ 229,628,860 | 12.06% |

**GENERAL OBLIGATION DEBT LIMITATION**. . . No general obligation debt limitation is imposed on the City under current State law. The City's Home Rule Charter, however, limits the maximum bonded indebtedness payable from ad valorem taxation (see "THE BONDS - Tax Rate Limitation").

**TABLE 6 - TAX ADEQUACY**[(1)]

| | | |
|---|---|---|
| 2019 Net Principal and Interest Requirements | $ | 1,840,119 |
| $0.0986 Tax Rate at 98% Collection Produces | $ | 1,839,108 |
| | | |
| Maximum Net Principal and Interest Requirements (2020) | $ | 2,091,352 |
| $0.1121 Tax Rate at 98% Collection Produces | $ | 2,090,912 |
| | | |
| Average Net Principal and Interest Requirements (2019-2049) | $ | 1,255,993 |
| $0.0673 Tax Rate at 98% Collection Produces | $ | 1,255,293 |

(1) Includes the Bonds; excludes self-supporting debt. See "Table 10 – Computation of Self-Supporting Debt."

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

| | 2018/19 Taxable Assessed Value | 2018/19 Tax Rate | Total Net Tax Supported Debt As of 5/15/19 | Estimated % Applicable | Overlapping Tax Supported Debt as of 5/15/2019 | Authorized But Unissued Debt as of 5/15/2019 |
|---|---|---|---|---|---|---|
| Huntsville ISD | $ 2,633,670,960 | $ 1.1750 | $ 16,440,000 | 57.99% | $ 9,533,556 | $ - |
| Walker County | 3,768,494,571 | 0.5490 | 15,160,000 | 49.27% | 7,469,332 | - |
| Total Net Overlapping Debt | | | | | $ 17,002,888 | |
| | | | | | | |
| Huntsville, City of | 1,903,286,337 | 0.3422 | 26,730,732 (1) | 100.00% | 26,730,732 (1) | 37,000,000 |
| | | | | | | |
| Total Net Direct and Overlapping Funded Debt | | | | | $ 43,733,620 | |
| Ratio of Total Net Direct and Overlapping Funded Debt to Taxable Assessed Valuation | | | | | 2.30% | |
| Per Capita Total Net Direct and Overlapping Funded Debt (1) | | | | | 1,049 | |

(1) Includes the Bonds; excludes self-supporting debt.

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## DEBT INFORMATION

**TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

| Year End 9/30 | Outstanding Debt Service(1) Principal | Outstanding Debt Service(1) Interest | Outstanding Debt Service(1) Total | The Bonds(2) Principal | The Bonds(2) Interest | The Bonds(2) Total | Less Self-Supporting Debt(3) | Total Net Debt Service Requirements | % of Principal Retired |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | $ 2,135,000 | $ 412,415 | $ 2,547,415 | $ - | $ - | $ - | $ 707,296 | $ 1,840,119 | |
| 2020 | 1,425,000 | 362,109 | 1,787,109 | 450,000 | 561,893 | 1,011,893 | 707,649 | 2,091,352 | |
| 2021 | 1,015,000 | 315,090 | 1,330,090 | 430,000 | 583,200 | 1,013,200 | 669,884 | 1,673,406 | |
| 2022 | 1,055,000 | 279,633 | 1,334,633 | 440,000 | 570,300 | 1,010,300 | 673,501 | 1,671,432 | |
| 2023 | 605,000 | 241,448 | 846,448 | 455,000 | 557,100 | 1,012,100 | 211,625 | 1,646,923 | 25.77% |
| 2024 | 625,000 | 215,918 | 840,918 | 470,000 | 543,450 | 1,013,450 | 207,075 | 1,647,293 | |
| 2025 | 655,000 | 188,896 | 843,896 | 485,000 | 529,350 | 1,014,350 | 207,525 | 1,650,721 | |
| 2026 | 380,000 | 166,800 | 546,800 | 500,000 | 514,800 | 1,014,800 | 207,800 | 1,353,800 | |
| 2027 | 400,000 | 149,200 | 549,200 | 515,000 | 499,800 | 1,014,800 | 207,200 | 1,356,800 | |
| 2028 | 420,000 | 130,650 | 550,650 | 530,000 | 484,350 | 1,014,350 | 211,400 | 1,353,600 | 41.80% |
| 2029 | 440,000 | 111,200 | 551,200 | 545,000 | 468,450 | 1,013,450 | 210,200 | 1,354,450 | |
| 2030 | 460,000 | 90,800 | 550,800 | 560,000 | 452,100 | 1,012,100 | 208,800 | 1,354,100 | |
| 2031 | 485,000 | 69,450 | 554,450 | 575,000 | 435,300 | 1,010,300 | 207,200 | 1,357,550 | |
| 2032 | 510,000 | 46,900 | 556,900 | 595,000 | 418,050 | 1,013,050 | 210,400 | 1,359,550 | |
| 2033 | 185,000 | 23,200 | 208,200 | 615,000 | 400,200 | 1,015,200 | 208,200 | 1,015,200 | 57.79% |
| 2034 | 195,000 | 15,800 | 210,800 | 630,000 | 381,750 | 1,011,750 | 210,800 | 1,011,750 | |
| 2035 | 200,000 | 8,000 | 208,000 | 650,000 | 362,850 | 1,012,850 | 208,000 | 1,012,850 | |
| 2036 | - | - | - | 670,000 | 343,350 | 1,013,350 | - | 1,013,350 | |
| 2037 | - | - | - | 690,000 | 323,250 | 1,013,250 | - | 1,013,250 | |
| 2038 | - | - | - | 710,000 | 302,550 | 1,012,550 | - | 1,012,550 | 69.84% |
| 2039 | - | - | - | 730,000 | 281,250 | 1,011,250 | - | 1,011,250 | |
| 2040 | - | - | - | 755,000 | 259,350 | 1,014,350 | - | 1,014,350 | |
| 2041 | - | - | - | 775,000 | 236,700 | 1,011,700 | - | 1,011,700 | |
| 2042 | - | - | - | 800,000 | 213,450 | 1,013,450 | - | 1,013,450 | |
| 2043 | - | - | - | 825,000 | 189,450 | 1,014,450 | - | 1,014,450 | 82.34% |
| 2044 | - | - | - | 850,000 | 164,700 | 1,014,700 | - | 1,014,700 | |
| 2045 | - | - | - | 875,000 | 139,200 | 1,014,200 | - | 1,014,200 | |
| 2046 | - | - | - | 900,000 | 112,950 | 1,012,950 | - | 1,012,950 | |
| 2047 | - | - | - | 925,000 | 85,950 | 1,010,950 | - | 1,010,950 | |
| 2048 | - | - | - | 955,000 | 58,200 | 1,013,200 | - | 1,013,200 | 96.83% |
| 2049 | - | - | - | 985,000 | 29,550 | 1,014,550 | - | 1,014,550 | 100.00% |
| | $ 11,190,000 | $ 2,827,508 | $ 14,017,508 | $ 19,890,000 | $ 10,502,843 | $ 30,392,843 | $ 5,474,555 | $ 38,935,795 | |

(1) "Outstanding Debt" does not include lease/purchase obligations but includes ad valorem tax debt such as certificates of obligations.
(2) Average life of the Bonds: 17.602 years.
(3) General obligation debt in the amounts shown of which repayment is provided from other revenue sources. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from these revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**[1]

| | | |
|---|---|---|
| Net General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2019 | | $ 1,840,119 |
| Interest and Sinking Fund Balance, 9/30/2018 | $ 374,862 | |
| Budgeted Interest and Sinking Fund Tax Levy | 1,483,020 | |
| Estimated Interest Income | 3,500 | |
| Other Revenues | 353,600 | 2,214,982 |
| Estimated Balance, 9/30/2019 | | $374,863 |

(1) Excludes self-supporting debt. Includes the Bonds.

**TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT**

| | Waterworks and Sewer System | Solid Waste System |
|---|---|---|
| Net System Revenue Available at Fiscal Year Ended 9/30/2018 | $ 13,519,331 | $ 1,625,690 |
| Less: FY 18/19 Requirements for Revenue Bonds [1] | 6,210,428 | - |
| Balance Available for Other Purposes | $ 7,308,903 | $ 1,625,690 |
| System General Obligation Bond Requirements, Fiscal Year Ended 9/30/2019 | 495,796 | 211,500 |
| Balance | 6,813,107 | 1,414,190 |
| Percentage of System General Obligation Bonds Self-Supporting | 100% | 100% |

(1) Debt service payable in fiscal year 2019 on Trinity River Authority Huntsville Regional Water Supply System Project Bonds and Series 2018 Water and Wastewater System Revenue Bonds.

**TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

| Date of Authorization | Purpose | Amount Authorized | Issued To Date | Amount Being Issued[1] | Unissued |
|---|---|---|---|---|---|
| 1/21/1984 | Street | $ 4,200,000 | $ 2,000,000 | $ - | $ 2,200,000 [3] |
| 11/6/2007 | Fire Station | 2,150,000 | 1,850,000 | - | 300,000 [3] |
| 11/8/2016 | Police & Fire | 31,000,000 | - | 20,500,000 | 10,500,000 [3] |
| 11/8/2016 | Service Center [2] | 24,000,000 | - | - | 24,000,000 |
| | | $ 61,350,000 | $ 3,850,000 | $ 20,500,000 | $ 37,000,000 |

(1) Includes premium.
(2) The City anticipates issuing this authorized debt in August 2020. In that the Utility Fund will use significant portions of any facilities constructed or improved the City projects that approximately 70% of debt service needs for this debt will come from transfers from the Utility Fund.
(3) Due to the age of the authorization, the City has no plans to issue any of this authorized but unissued debt.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT**. . . The City does not anticipate issuing additional general obligation or other ad valorem tax debt within the next 12 months.

**TABLE 12 – OTHER OBLIGATIONS**

The City has no unfunded debt as of May 31, 2019.

**PENSION FUND**

Plan Description – The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit 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 are required to participate in TMRS.

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

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

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

| | |
|---|---|
| Employee deposit rate | 7.0% |
| Matching ratio (city to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility | 20 years at any age, 5 years at age 60 and above |
| Updated Service Credit | 100% Repeating, |
| Annuity Increase (to retirees) | 50% of CPI repeating |

**EMPLOYEES COVERED BY BENEFIT TERMS**

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 194 |
| Inactive employees entitled to but not yet receiving benefits | 144 |
| Active employees | 244 |
| | 582 |

**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 consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.07% and 18.58% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ending September 30, 2018, were $2,403,097, and were equal to the required contributions.

**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 Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.5% per year |
| Overall payroll growth | 2.8% 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 males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 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% | |

**DISCOUNT RATE:**

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

**CHANGES IN NET PENSION LIABILITY**

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balance at 12/31/2016 | $ 85,059,588 | $ 63,766,817 | $ 21,292,771 |
| Changes for the year: | | | |
| Service cost | 2,005,970 | - | 2,005,970 |
| Interest | 5,674,192 | - | 5,674,192 |
| Difference between expected and actual experience | (635,663) | - | (635,663) |
| Contributions - employer | - | 2,481,100 | (2,481,100) |
| Contributions - employee | - | 935,151 | (935,151) |
| Net investment income | - | 8,834,783 | (8,834,783) |
| Benefit payments, including refunds of employee contributions | (4,000,952) | (4,000,952) | - |
| Administrative expense | - | (45,802) | 45,802 |
| Other changes | - | (2,321) | 2,321 |
| Net changes | 3,043,547 | 8,201,959 | (5,158,412) |
| Balance at 12/31/2017 | $ 88,103,135 | $ 71,968,776 | $ 16,134,359 |

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| City's net pension liability | $ 28,129,994 | $ 16,134,359 | $ 6,281,324 |

**PENSION PLAN FIDUCIARY NET PENSION**

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

**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 expense of $2,673,724

At September 30, 2018, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 111,160 | $ 562,720 |
| Changes in actuarial assumptions | 424,131 | - |
| Difference between projected and actual investment earnings | - | 1,820,937 |
| Contributions subsequent to the measurement date | 1,935,843 | - |
| Total | $ 2,471,134 | $ 2,383,657 |

$1,735,843 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 measurement year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

| For the Year Ended September 30: | |
|---|---|
| 2019 | $ 223,893 |
| 2020 | (81,740) |
| 2021 | (1,040,067) |
| 2022 | (950,452) |
| Total | $ (1,848,366) |

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - TMRS SUPPLEMENTAL DEATH BENEFITS FUND**

***Plan Description.*** The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, the Plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

***Benefits Provided.*** The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and 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.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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 other employment benefit and is a fixed amount of $7,500.

The number of employees currently covered by the benefit terms is as follows:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 163 |
| Inactive employees entitled to but not yet receiving benefits | 44 |
| Active members | 244 |
| Total | 451 |

***Contributions.*** The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.19% for 2018 and 0.17% for 2017, of which 0.04% and 0.04%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2018 and 2017 were $24,899 and $24,103, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

***Total OPEB Liability***

The City's total OPEB liability of $953,513 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

***Actuarial Assumptions and Other Inputs.*** The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation rate | 2.50% per annum |
| Discount rate | 3.31% |
| Actuarial cost method | Entry Age Normal Method |
| Projected salary increases | 3.50% to 10.5% including inflation |

Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for in the provisions of GASB Statement No. 68.

Salary increases were based on a service-related table.
Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with 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 became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.31% was used to measure the total OPEB liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2017.

***Discount Rate Sensitivity Analysis.*** The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.31%) in measuring the Total OPEB Liability.

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| Total OPEB Liability | $ 1,162,273 | $ 953,513 | $ 793,409 |

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs.*** At September 30, 2018, the City reported a liability of $953,513 for its Total OPEB Liability. The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2017. For the year ended September 30, 2018, the City recognized OPEB expense of $75,275. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

***Changes in the Total OPEB Liability***

| | Total OPEB Liability |
|---|---|
| Balance at 12/31/2016 | $ 819,033 |
| Changes for the year: | |
| Service cost | 28,028 |
| Interest | 31,388 |
| Changes of assumptions | 80,404 |
| Benefit payments | (5,340) |
| Net changes | 134,480 |
| Balance at 12/31/2017 | $ 953,513 |

At September 30, 2018, the City reported deferred outflows of resources related to other post- employment benefits from the following sources:

| | Deferred Outflows of Resources |
|---|---|
| Changes in actuarial assumptions | $ 64,545 |
| Contributions subsequent to the measurement date | 5,560 |
| Totals | $ 70,105 |

$5,560 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 year ending September 30, 2019. Other amounts reported as deferred outflows related to OPEB will be recognized in OPEB expense as follows:

| For the Year Ended September 30, | |
|---|---|
| 2019 | 15,859 |
| 2020 | 15,859 |
| 2021 | 15,859 |
| 2022 | 15,859 |
| 2023 | 1,109 |

***Other Post-Employment Benefits***

**POST-RETIREMENT HEALTH CARE BENEFITS**

***Plan Description.*** The City provides post-retirement medical, dental, vision and life insurance benefits on behalf of its eligible retirees. The City established by ordinance the healthcare plan that covers eligible retired employees of the City. The City established an irrevocable trust (PEB Trust) and contracted with an administrator, Public Agencies Retirement Services (PARS), as well as a custodial bank, to manage the plan's assets. Because plan assets are pooled by PARS with those of other plans for investment, the City's plan assets meet the criteria of an agent multiple-employer plan under GASB Statement No. 75.

***Benefits Provided.*** The City maintains medical, dental, vision and life insurance plans covering current and retired employees and their dependents. For pre-65 retirees, the medical plan is the same as the active plan. There are two options offered: a traditional medical plan with a deductible and copay and a high deductible plan. For most of the post-65 retirees, the medical plan is a fully-insured Medicare Supplement plan. However, there are fourteen current retirees that have never participated in the Medicare program and consequently, they will continue on the active plan which will be the primary payer throughout their lifetime. The dental plan is also self-insured with two options available to retirees and active employees alike: Dental with and without Orthodontia. Retirees may remain in the dental plan regardless of age.

The vision plan is fully-insured while the dental plan is self-insured. The vision plan is 100% funded through retiree contributions. Since the retiree must pay the full premium and there is not a material implicit subsidy for these benefits, there is no liability for the City. Therefore, the vision plan was excluded from our valuation. The life insurance plan is a Supplemental Death Benefit Fund administered by TMRS. The benefit is one times the annual salary for active employees and $7,500 for retirees. A separate GASB 75 valuation was provided by TMRS (performed by GRS Retirement Consulting) which includes the required disclosures related to the life benefit. Therefore, we have excluded it from our valuation as well.

Effective 1/1/2018, a revision was made to the plan. For current and future employees hired after 1/1/2016, Retirees are only eligible to remain in the plan until age 65. In addition, these retirees are required to pay 100% of the premium cost (equivalent to the COBRA premiums). Therefore, these members' costs were assumed to be zero once attaining age 65.

For current employees hired prior to 1/1/2016, Retirees are eligible to remain on the self-funded plan prior to age 65 and may enroll in the Medicare Supplement plan once attaining Medicare eligibility; however, the City's subsidization of the cost of coverage will be eliminated effective 1/1/2028 or age 65 (whichever comes first). Therefore, these members' costs were assumed to be zero once attaining age 65. In addition, these retirees will be required to pay the COBRA premiums in order to continue to receive pre-65 coverage after 1/1/2028.

In addition, retirees will receive 67% of their remaining sick leave balance in a Retirement Health Savings Program through ICMA-RC (RHS benefit), if they are under the age of 65 on the effective date of retirement.

For current retirees, their coverage has not changed since the prior valuation. Members eligible for the subsidy will continue paying the posted premium rates paid by eligible active employees for pre-65 coverage (and post-65 coverage assuming they are not eligible for Medicare), and once attaining Medicare eligibility, retirees may enroll in the Medicare Supplement plan until death at the posted premium rates less the City's subsidy which will not exceed $412.50 per month.

The number of employees currently covered by the benefit terms is as follow:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 75 |
| Active members | 227 |
| Total | 302 |

**Actuarial Methods and Assumptions**

Significant methods and assumptions were as follows:

| | |
|---|---|
| Actuarial Valuation Date | September 30, 2018 |
| Actuarial Cost Method | Individual Entry Age |
| Inflation Rate | 2.50% |
| Salary Scale | 2.50% |
| Demographic Assumptions | Based on the experience study covering the four year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System( TMRS). |
| Mortality | Mortality rates for active employees were based on the RPH-2014 Employee Mortality Table, Generational with Projection Scale MP-2018 for males or females, as vac; appropriate. Mortality rates for retirees were based on on the RPH-2014 Health Annuitant Mortality Table, Generational with Projection Scale MP- 2018 for males or females, as appropriate. |
| Health care cost trend rates | The medical ( including stop loss) and dental clais, mosts as well as expenses are assumed to go from 6.00% in 2019 to 4. 50% and 3.00% in medical and dental, respecitively. Medical and dental retiree contributions are assumed to increase at the same rate as claim costs. |
| Participation rates | It was assumed that 95% of retirees who are eligible for the City subsidy and 5% of those who are not eligible for the City subsidy would choose to receive health care benefits through the City. |
| Discount rate | The discount rate used to measure the the Total OPEB liaiblity was 7. 0%. The projection of cash flows used to determine the discount assumed that Service contributions will be made that will cover all required annual benefit payments as they come due with the exception of HRA contributions the City makes to eligible employees' accounts upon retirement. |

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

There is no separately issued audited benefit plan report available for the City's OPEB plan.

***Discount Rate.*** The discount rate used to measure the Total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that Service contributions will be made that will cover all required annual benefit payments as they become due with the exception of HRA contributions the City makes to eligible employees' accounts upon retirement. Those will be paid via PEB Trust. Based on these assumptions, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB liability.

**Changes in Net OPEB Liability**

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at 9/30/2017 | $10,571,731 | $ 3,713,583 | $ 6,858,148 |
| Changes for the year: | | | |
| Service Cost | $ 43,312 | $ - | $ 43,312 |
| Interest | 731,662 | - | 731,662 |
| Differences between expected and actual experience | (295,877) | - | - (295,877) |
| Contributions for benefits due | - | 283,929 | (283,929) |
| Net investment income | - | 312,323 | (312,323) |
| Benefit payments | (325,462) | (325,462) | - |
| Net changes | 153,635 | 270,790 | (117,155) |
| Ending Balance | $10,725,366 | $ 3,984,373 | $ 6,740,993 |

***Discount Rate Sensitivity Analysis.*** The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.00%) in measuring the Net OPEB Liability.

| | 1% Decrease in Discount Rate (6.00%) | Discount Rate (7.00%) | 1% Increase in Discount Rate (8.00%) |
|---|---|---|---|
| City's net OPEB liability | $ 7,906,926 | $ 6,740,993 | $ 5,758,115 |

***Healthcare Cost Trend Rate Sensitivity Analysis.*** The following schedule shows the impact of the net OPEB liability if the Healthcare Cost Trend Rate used was 1% less than and 1% greater than what was used in measuring the net OPEB liability.

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| City's net OPEB liability | $ 5,770,419 | $ 6,740,993 | $ 7,882,670 |

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs.*** At September 30, 2018, the City reported a liability of $6,740,993 for its net OPEB Liability. The net OPEB Liability was determined by an actuarial valuation as of September 30, 2017. Update procedures were used to roll forward the total OPEB liability to September 30, 2018. For the year ended September 30, 2018, the City recognized OPEB expense of $439,692. There were no changes of benefit terms that affected measurement of the net OPEB liability during the measurement period.

Changes in assumptions and other inputs reflect a change in the blended discount rate from 4.00% to 7.00%.

At September 30, 2018, the City reported deferred inflows of resources related to OPEB from the following sources:

| | | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ | 221,908 |
| Difference between projected and actual investment earnings | | 51,010 |
| Total | $ | 272,918 |

There were no contributions subsequent to the measurement date as the City's measurement date and fiscal year is September 30. Other amounts of the reported deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| For the Year Ended September 30, | |
|---|---|
| 2019 | $ (86,722) |
| 2020 | (86,722) |
| 2021 | (86,722) |
| 2022 | (12,752) |

**Medical Insurance Fund**

Claims incurred but not reported have been estimated based on information available from the fund administrator and recorded as an account payable of the fund.

The total amount for service charges (to other funds) is computed based on an actuarial method which is adjusted annually. A stop-loss insurance policy limits the City's liability on catastrophic claims. Effective January 1, 2015, the City's limit is increased from $125,000 to $150,000 per employee. There were no settlements in excess of the insurance coverage in any of the prior three fiscal years. Changes in the balance of aggregate liabilities during the year are as follows:

| | 2018 | 2017 |
|---|---|---|
| Aggregate liabilities October 1 | $ 252,651 | $ 206,577 |
| Incurred liabilities | 2,551,429 | 2,521,114 |
| Paid liabilities | (2,538,268) | (2,475,040) |
| | $ 265,812 | $ 252,651 |

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## FINANCIAL INFORMATION

**TABLE 13 - CHANGES IN NET ASSETS**

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| REVENUES: | | | | | |
| Program Revenues: | | | | | |
| Charges for Services | $ 3,317,598 | $ 3,284,916 | $ 2,891,963 | $ 2,503,911 | $ 2,491,369 |
| Operating Grants and Contributions | 644,076 | 370,234 | 430,311 | 678,290 | 1,012,255 |
| Capital Grants and Contributions | 104,915 | 113,643 | 121,190 | 461,936 | 1,240,972 |
| General Revenues: | | | | | |
| Property Taxes | 6,271,809 | 6,124,340 | 5,816,471 | 5,840,689 | 5,708,473 |
| Sales Taxes | 8,973,222 | 9,001,502 | 7,956,186 | 7,942,631 | 7,292,731 |
| Franchise Fees | 2,150,356 | 2,094,257 | 2,083,559 | 2,741,577 | 2,065,187 |
| Other Taxes | 995,248 | 824,729 | 980,206 | 1,013,999 | 1,025,696 |
| Investment Earnings | 302,390 | 297,980 | 210,191 | 337,682 | 373,492 |
| Other | 228,846 | 223,297 | 125,828 | 621,758 | 185,946 |
| Total Revenues | $ 22,988,460 | $ 22,334,898 | $ 20,615,905 | $ 22,142,473 | $ 21,396,121 |
| EXPENSES: | | | | | |
| General Government | $ 5,897,776 | $ 6,189,702 | $ 5,947,780 | $ 5,012,803 | $ 5,587,459 |
| Public Works | 7,117,826 | 6,748,483 | 5,632,124 | 5,249,265 | 5,459,928 |
| Community Services | 3,019,702 | 3,618,287 | 3,940,687 | 3,213,392 | 3,387,747 |
| Public Safety | 8,595,311 | 9,594,739 | 8,725,431 | 7,737,532 | - |
| Economic Development | - | - | - | - | 7,571,741 |
| Tourism & Cultural Services | 220,077 | 219,586 | 236,656 | 197,046 | 194,889 |
| Interest on Long Term Debt | 295,010 | 341,943 | 376,667 | 449,561 | 508,431 |
| Total Expenditures | $ 25,145,702 | $ 26,712,740 | $ 24,859,345 | $ 21,859,599 | $ 22,710,195 |
| Change in Net Assets | $ (2,157,242) | $ (4,377,842) | $ (4,243,440) | $ 282,874 | $ (1,314,074) |
| Transfers | 6,065,950 | 5,739,002 | 5,005,447 | 5,145,966 | 5,381,142 |
| Beginning Net Assets | 30,510,318 | 29,149,158 | 28,588,301 | 33,784,361 | 30,193,168 |
| Change in Accounting Principle | (436,011) | - | - | (10,624,900) | (291,305) |
| Prior Period Adjustments for Capital Assets | - | - | (201,150) | - | (184,570) |
| Ending Net Assets | $ 33,983,015 | $ 30,510,318 | $ 29,149,158 | $ 28,588,301 | $ 33,784,361 |

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**TABLE 13A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

| | For Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| **Revenues:** | | | | | |
| Taxes | $ 15,732,885 | $ 15,531,620 | $ 14,360,736 | $ 14,121,611 | $ 11,294,740 |
| Licenses and Permits | 849,707 | 791,402 | 565,430 | 465,897 | 374,933 |
| Fines, Fees and Forfeitures | 1,328,658 | 1,430,584 | 1,177,121 | 1,045,885 | 1,104,139 |
| Charges for Sales and Services | 462,437 | 449,902 | 462,363 | 490,249 | 431,650 |
| Interest Earnings | 147,116 | 210,244 | 158,035 | 121,009 | 167,314 |
| Donations, Contribution and Grants | 213,069 | 69,349 | 114,955 | 206,382 | 430,472 |
| Miscellaneous | 107,786 | 198,601 | 85,876 | 60,889 | 90,767 |
| Total Revenues | $ 18,841,658 | $ 18,681,702 | $ 16,924,516 | $ 16,511,922 | $ 13,894,015 |
| **Expenditures:** | | | | | |
| General Government | $ 5,955,931 | $ 5,631,798 | $ 5,201,994 | $ 4,748,154 | $ 5,251,209 |
| Public Works | 4,703,443 | 4,945,159 | 4,009,525 | 4,184,895 | 1,945,258 |
| Public Safety | 8,058,826 | 7,996,066 | 7,254,759 | 6,751,102 | 6,678,344 |
| Community Services | 2,992,949 | 2,987,997 | 2,969,771 | 2,618,895 | 2,663,699 |
| Tourism & Cultural Services | 220,077 | 219,586 | 236,656 | 197,046 | 194,889 |
| Principal Retirement | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Total Expenditures | $ 21,931,226 | $ 21,780,606 | $ 19,672,705 | $ 18,500,092 | $ 16,733,399 |
| Excess (Deficiency) of Revenues Over Expenditures | $ (3,089,568) | $ (3,098,904) | $ (2,748,189) | $ (1,988,170) | $ (2,839,384) |
| Transfers (Net) | 5,165,116 | 1,330,286 | 3,253,738 | 2,952,957 | 3,290,598 |
| Sale of Capital Assets | 80,808 | 1,665 | 5,098 | 6,695 | - |
| Fund Balance, Beginning of Year | $ 11,654,872 | $ 13,421,825 | $ 12,911,178 | $ 11,939,696 (1) | $ 10,645,312 |
| Prior Period Adjustment | - | - | - | - | - |
| Fund Balance, End of Year | $ 13,811,228 | $ 11,654,872 | $ 13,421,825 | $ 12,911,178 | $ 11,096,526 |

(1) Restated.

**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.S., Tax Code, Chapter 321, as amended, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; **the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds.** Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

| Fiscal Year Ended 9/30 | Total Collected | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita |
|---|---|---|---|---|
| 2015 | $ 7,847,106 | 134.68% | $ 0.5530 | $ 196 |
| 2016 | 7,878,901 | 132.81% | 0.5097 | 191 |
| 2017 | 9,001,502 | 147.65% | 0.5624 | 216 |
| 2018 | 8,887,538 | 145.23% | 0.5155 | 213 |
| 2019 | 6,172,657 (1) | 94.77% | 0.3243 | 148 |

(1) Collections through May 2019.

**FINANCIAL POLICIES**

Basis of Accounting . . . The accounting policies of the City conform to generally accepted accounting principles of the Governmental Accounting Standards Board and program standards adopted by the Government Finance Officers Association of the United States and Canada. The GFOA has awarded a Note of Achievement for Excellence in Financial Reporting to the City of Huntsville for the 35th year, and received for the 26th year the GFOA Distinguished Budget Presentation Award.

The City's accounting records for general governmental operations are maintained on a modified accrual basis. Under this method of accounting, revenues are recognized when available and measurable, and expenditures, except for interest on long-term debt, are recognized when the services or goods are received and the liability is incurred.

General Fund Balance . . . The City policy is to maintain a fund balance reserve of at least 25% of the annual budgeted expenditures.

Debt Service Fund Balance . . . The City policy is to maintain the Debt Service Fund as required by the outstanding bond ordinances. Reductions in fund balance will occur only with City Council approval after conferring with the City's Financial Advisor.

Use of Bond Proceeds, Grants, etc . . . The City policy is to use proceeds of all bonds authorized, issued, and sold by the City only for the purpose for which voted or authorized. All debt issuance shall be approved by the City Council.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. At least 30 days prior to the end of each fiscal year, the City Manager shall submit to the Council a proposed budget presenting a complete financial plan for the ensuing fiscal year. Such budget shall be prepared and public hearings shall be held in the manner prescribed by the laws of the State of Texas relating to budgets in cities and towns. The budget shall be finally adopted not later than the 27th day of the last month of the fiscal year. If the Council fails to adopt a budget prior to such date, the budget, as submitted, shall be deemed to have been finally adopted by the Council.

**INVESTMENTS**

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

**LEGAL INVESTMENTS**. . . Under State 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 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 unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for City deposits; or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State 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 that is selected by the City; (b) 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; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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; (10) securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, 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;

and (iv) the agreement to lend securities has a term of one year or less; (11) 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; (12) 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; (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and, (14) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, either (i) has a duration of one year or more and is invested exclusively in obligations described in this paragraph or (ii) has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities, and invest exclusively in obligations described in this paragraph. 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.

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 “AAA-m” 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 State 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 includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, 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 Public Funds Investment Act.

All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) market ability of each investment, (5) diversification of the portfolio, and (6) yield. The City is required to designate one or more officers or employees as investment officers to be responsible for the investment of its funds. In the administration of the duties of an investment officer, the person so designated shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person’s own affairs. Unless authorized by law, a person may not deposit, withdraw, or manage in any other manner the funds of the City.

Under State law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report for the period. The report must: (1) describe the investment position of the City, (2) be prepared jointly and signed by each investment officer, (3) contain a summary of each pooled fund group that states: the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) state the book value and market value of each separately listed asset at the end of the reporting period, (5) state the maturity date of each separately invested asset, (6) state the account or pooled fund group for which each individual investment was acquired, and (7) state the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of Bonds of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers shall be reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council. No person may invest City funds without express written authority from the City Council.

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

The City's current investment policy is in compliance with the State law requirements described above.

**TABLE 15 - CURRENT INVESTMENTS**

As of April 30, 2019, the City's investable general funds were invested in the following categories:

| Description | Percent of Total | Market Value | Book Value |
|---|---|---|---|
| Certificates of Deposit & Commercial Paper | 6.28% | $ 5,829,514 | $ 5,829,514 |
| LGIP | 50.40% | 46,782,543 | 46,782,543 |
| Bonds -Agencies & Municipals | 43.32% | 40,214,484 | 40,400,325 |
| Total | 100.00% | $ 92,826,541 | $ 93,012,382 |

## TAX MATTERS

**OPINION** . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel to the City, 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 (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 information and representations contained in the City's federal tax certificate, and (b) covenants of the City contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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 rendered in reliance upon the 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 the 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 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 the 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 six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month 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 Bond should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes 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 earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT RECENTLY ENACTED LEGISLATION OR FROM THE 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 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 Bond bears to the number of days between the acquisition date and the final maturity date.

**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 IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

**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.

**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 of the foregoing could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any of the foregoing becoming effective cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The City is required to observe the agreement 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 events to the Municipal Securities Rulemaking Board ("*MSRB*"). This information will be publicly available on the MSRB's Electronic Municipal Market Access System ("*EMMA*") at http://emma.msrb.org/.

**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 6 and 8 through 15 and in Appendix B, which is the City's annual audited financial report. The City will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2019 and, if not submitted as part of such annual financial information, the City will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes 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, the City must provide updated information included in the above-referenced tables by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

**EVENT NOTICES** . . . The City will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The City will provide notice of any of the following events with respect to the 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 holders 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; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of any 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 makes any provision for a bond trustee, debt service reserves or credit enhancement.)

**LIMITATIONS AND AMENDMENTS** . . . The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 registered and beneficial owners of the Bonds. The City may also amend or repeal the provisions of its 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 all continuing disclosure agreements made by it in accordance with the Rule.

## OTHER INFORMATION

### RATINGS

The Bonds and the presently outstanding tax supported debt of the City are rated “AA-” S&P and “AA” by Fitch, without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the view of such companies 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 either or both of such rating companies, if in the judgment of either or both of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, 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.

### REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other 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.

### 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, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Texas Public Funds Investment Act requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "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 MATTERS

The City will furnish to the Initial Purchaser a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect, and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Though it may represent the Financial Advisor and purchasers of bonds, such as the Initial Purchaser, from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

The legal 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.

### AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City 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 ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

### FINANCIAL ADVISOR

Hilltop Securities 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. The Financial Advisor has agreed, in its Financial Advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. Hilltop Securities 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.

### INITIAL PURCHASER OF THE BONDS

After requesting competitive bids for the Bonds, the City accepted the bid of Robert W. Baird & Co., Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page 2 of this Official Statement at a price of $20,647,488.58. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The initial yields shown on page 2 of this Official Statement will be established by and are the sole responsibility of the Initial Purchaser and may subsequently be changed at the sole discretion of the Initial Purchaser. The City has no control over the determination of the initial yields and has no control over the prices at which the Bonds are sold in the secondary market.

On April 1, 2019, Baird Financial Corporation, the parent company of Baird, acquired HL Financial Services, LLC, its subsidiaries, affiliates and assigns (collectively "Hilliard Lyons"). As a result of such common control, Baird, Hilliard Lyons and Hilliard Lyons Trust Company are now affiliated. It is expected that Hilliard Lyons will merge with and into Baird later in 2019

### CERTIFICATION AS TO OFFICIAL STATEMENT

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

### FORWARD-LOOKING STATEMENTS DISCLAIMER

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 City's actual results could differ materially from those discussed in such forward-looking statements.

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

### MISCELLANEOUS

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

ANDY BRAUNINGER
Mayor
City of Huntsville, Texas

ATTEST:

BRENDA POE
City Secretary
City of Huntsville, Texas

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# **APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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## THE CITY

### LOCATION

The City of Huntsville (founded in 1845) is the county seat and principal commercial center of Walker County, Texas, which is in the southeastern corner of Texas. The City is approximately 70 miles north of Houston, 170 miles southeast of Dallas, and approximately 130 miles west of the Louisiana state line. The City encompasses an area of approximately 31 square miles.

The City's 2010 census population was 38,548, increasing 25.6% since 1990. Population estimates include inmates within the Texas Department of Criminal Justice ("T.D.C.J.") System located within the City limits. T.D.C.J. headquarters and five of its main units are located in the City.

### POPULATION HISTORY(1)

| | 1960 Census | 1970 Census | 1980 Census | 1990 Census | 2000 Census | 2010 Census |
|---|---|---|---|---|---|---|
| Huntsville | 11,999 | 17,610 | 23,463 | 27,925 | 35,078(2) | 38,548 |
| Walker County | 21,475 | 27,680 | 41,789 | 50,917 | 61,758 | 67,861 |

(1) Source: U.S. Census Bureau.
(2) In 1994 and 1997, the City annexed property increasing the population to an estimated 34,592.

### ECONOMY

The economy is based on education, state employment in the prison system, lumbering, agribusiness and tourism. The principal sources of agricultural income are livestock, hay, blueberries, and timber.

### EMPLOYMENT/LABOR FORCE

| | Average Annual | | | | |
|---|---|---|---|---|---|
| | 2019(1) | 2018 | 2017 | 2016 | 2015 |
| **City of Huntsville** | | | | | |
| Civilian Labor Force | 11,975 | 11,818 | 11,695 | 11,812 | 11,454 |
| Total Employment | 11,430 | 11,239 | 11,069 | 11,137 | 10,831 |
| Unemployment | 545 | 579 | 626 | 675 | 623 |
| Percent Unemployment | 4.6% | 4.9% | 5.4% | 5.7% | 5.4% |

| | Average Annual | | | | |
|---|---|---|---|---|---|
| | 2019(1) | 2018 | 2017 | 2016 | 2015 |
| **Walker County** | | | | | |
| Civilian Labor Force | 24,292 | 23,970 | 23,713 | 23,797 | 22,995 |
| Total Employment | 23,351 | 22,961 | 22,614 | 22,551 | 21,835 |
| Unemployment | 941 | 1,009 | 1,099 | 1,246 | 1,160 |
| Percent Unemployment | 3.9% | 4.2% | 4.6% | 5.2% | 5.0% |

Source: Texas Employment Commission, Austin, Texas.
(1) Averages as of April 2019.

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## LEADING EMPLOYERS IN THE CITY

| Name | Product/Service | Local Employees | Year Established | Union |
|---|---|---|---|---|
| Texas Department of Criminal Justice | State Prison Administration | 7,000 | 1848 | No |
| Sam Houston State University | Education | 3,941 | 1879 | No |
| Huntsville I.S.D. | Education | 1,450 | 1888 | No |
| Huntsville Memorial Hospital | Medical | 522 | 1927 | No |
| Wal-Mart | Retail | 405 | 1979 | No |
| Walker County | Government | 296 | 1846 | No |
| City of Huntsville | Municipality | 268 | 1845 | No |
| Educational Service Center, Region VI | Education | 200 | 1967 | No |
| Weatherford Completion Services | Manufacturing | 188 | 1996 | No |
| Bayes Achievement Center | Education | 185 | 1993 | No |

## TEXAS DEPARTMENT OF CRIMINAL JUSTICE

The headquarters for the Texas Department of Corrections is located in the City. In addition, located in or near the City are the following institutional prison units:

| Unit | Unit Capacity | Population[1] | Employees |
|---|---|---|---|
| In City Limits | | | |
| Byrd | 1,365 | 1,127 | 348 |
| Goree | 1,321 | 1,092 | 379 |
| Holliday | 2,000 | 1,953 | 484 |
| Huntsville | 1,705 | 1,548 | 480 |
| Wynne | 2,621 | 2,597 | 729 |
| Outside City Limits | | | |
| Ellis | 2,404 | 2,374 | 667 |
| Estelle | 3,286 | 2,961 | 1,039 |

## SAM HOUSTON STATE UNIVERSITY

Sam Houston State, located in the City, was the first teacher training facility in the State and is noted for its unique Criminal Justice Center, only the second of its kind in the nation. The University has an approximate enrollment of 21,000.

## EDUCATION

Huntsville Independent School District, which ranks as the 91st largest district in Texas, encompasses an area of 629.27 square miles, and includes the City of Huntsville. Some nine campuses provide education for approximately 6,291 students from pre-kindergarten through twelfth grade.

## UTILITIES

Electric power is furnished by Entergy, and Mid-South Electric Cooperative; gas is provided by Reliant Energy; water and wastewater service is distributed by the City of Huntsville; and telephone service is provided by AT&T.

## TRANSPORTATION

Huntsville is traversed by Interstate Highway 45, U.S. Highway 190, State Highways 19 and 30, and numerous farm-to-market roads. The City is serviced by Missouri Pacific Railroad Company, Tex-Pack Express, Missouri Pacific Truck Lines, Central Freight Lines, and Red Arrow Freight Lines. Greyhound Trailways also provides bus service to the City.

Huntsville Municipal Airport provides a 5,000-foot asphalt runway for air traffic in the area. The nearest airport with commercial passenger service is 55 miles away at Houston Intercontinental Airport.

## Recreation

Sam Houston National Forest (covers 53,461 acres), and Huntsville State Park provide facilities for hunting and camping. Sam Houston Museum and the 77-foot tall statue of Sam Houston on Interstate 45, attracts tourist income. Fishing, boating, and other water activities on Lakes Livingston and Conroe provide recreation for the City.

## Building Permits

| | Commercial Construction | | Residential Construction | |
|---|---|---|---|---|
| Fiscal Year | Number of Units | Value | Number of Units | Value |
| 2015 | 105 | $ 30,517,908 | 175 | $ 13,199,902 |
| 2016 | 100 | 43,510,301 | 150 | 10,738,935 |
| 2017 | 146 | 66,282,849 | 175 | 13,115,872 |
| 2018 | 121 | 76,641,340 | 155 | 13,583,155 |
| 2019 (1) | 79 | 50,877,682 | 84 | 6,883,251 |

(1) Permits as of April 30, 2019.

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**APPENDIX B**

EXCERPTS FROM THE

CITY OF HUNTSVILLE, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2018

The information contained in this Appendix consists of excerpts from the City of Huntsville, 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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PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
254.772.4901 | pbhcpa.com

# INDEPENDENT AUDITORS' REPORT

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

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huntsville, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

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

***Change in Accounting Principle***

As discussed in the notes to the financial statements, in fiscal year 2018 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) 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 and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Single Audit Circular*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards 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 27, 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 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.

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

Waco, Texas
March 27, 2019

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# MANAGEMENT'S
# DISCUSSION AND ANALYSIS

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## MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Huntsville, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the 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 i to v of this report, and the financial statements which follow this section.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the 2018 fiscal year by $151,910,462 (net position). Of this amount, $30,414,337 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

- As of the close of fiscal year 2018, the City's governmental funds reported combined ending fund balances of $21,934,724, an increase of $370,937 from the prior year. Approximately 55% of this total amount is unassigned fund balance.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $12,013,170 or 55% of total General Fund expenditures.

- The City's total capital assets net of accumulated depreciation increased by $6,303,423. This is primarily due to the fact that additions to capital assets exceeded the value of capital asset deletions and depreciation expense for the current year.

- The City's governmental and business-type activities long-term debt increased $41,440,812 due to the issuance of the Water and Wastewater Revenue Bonds, Series 2018.

### Overview of the Financial Statements

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

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

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four 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 in order to present how the City's net position changed during the 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 reported in this statement for some items will only result in changes in cash flows for future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

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, and community services. The business-type activities of the City include water, wastewater, and solid waste operations.

**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. The fund financial statements for governmental funds, proprietary funds and fiduciary funds can be found in the financial section of this report.

**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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader 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 22 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, General Improvements Fund and Debt Service Fund, which are considered to be major funds. Data from the other 19 governmental funds are combined into a single aggregate presentation.

**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 its water, wastewater and solid waste operations. 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 water and wastewater and solid waste, all of which are considered to be major funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected 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 similar to the accounting used for proprietary funds. See Note I for additional information pertaining to fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 26 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information including budgetary comparison schedules for the General Fund and Debt Service Fund and information concerning the City's progress in funding its OPEB and pension obligations. Required supplementary information immediately follows the notes to the financial statements. Supplementary information including combining statements and budgetary comparison schedules for non-major governmental funds follow the section on required supplementary information.

## Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2018, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $151,910,462.

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

An additional portion of the City's net position (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $30,414,337, may be used to meet the City's ongoing obligations to citizens and creditors.

As of September 30, 2018, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

## City of Huntsville, Texas'
## Summary Statement of Net Position

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Current and other assets | $ 31,366,752 | $ 30,180,279 | $ 78,562,076 | $ 32,940,986 | $ 109,928,828 | $ 63,121,265 |
| Capital assets | 32,595,723 | 31,747,127 | 108,785,753 | 103,330,926 | 141,381,476 | 135,078,053 |
| Total assets | 63,962,475 | 61,927,406 | 187,347,829 | 136,271,912 | 251,310,304 | 198,199,318 |
| Deferred outflows of resources | 1,951,891 | 4,299,183 | 665,307 | 1,394,895 | 2,617,198 | 5,694,078 |
| Long-term liabilities outstanding | 28,002,638 | 33,507,157 | 66,483,482 | 24,419,654 | 94,486,120 | 57,926,811 |
| Other liabilities | 1,888,230 | 2,069,318 | 2,986,115 | 3,425,363 | 4,874,345 | 5,494,681 |
| Total liabilities | 29,890,868 | 35,576,475 | 69,469,597 | 27,845,017 | 99,360,465 | 63,421,492 |
| Deferred inflows of resources | 2,040,483 | 139,796 | 616,092 | 42,064 | 2,656,575 | 181,860 |
| Net position: | | | | | | |
| Net investment, in capital assets | 25,703,081 | 23,317,618 | 92,999,949 | 86,446,730 | 118,703,030 | 109,764,348 |
| Restricted | 2,793,095 | 2,431,788 | - | - | 2,793,095 | 2,431,788 |
| Unrestricted | 5,486,839 | 4,760,912 | 24,927,498 | 23,332,996 | 30,414,337 | 28,093,908 |
| Total net position | $ 33,983,015 | $ 30,510,318 | $ 117,927,447 | $ 109,779,726 | $ 151,910,462 | $ 140,290,044 |

**Governmental activities.** Net position increased by $3,908,708 in fiscal year 2018 before a prior period adjustment of ($436,011). Adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions,* required a prior period adjustment to report the effect of GASB 75 retroactively. This is compared to an increase of $1,361,160 in fiscal year 2017. The increase in net position as compared to the prior year is comprised of various factors. Related to revenues, the major factors include an increase in operating grants and contributions of $273,842. On the expense side, there was a decrease of $999,428 and $598,585 public safety and community service expenses, respectively.

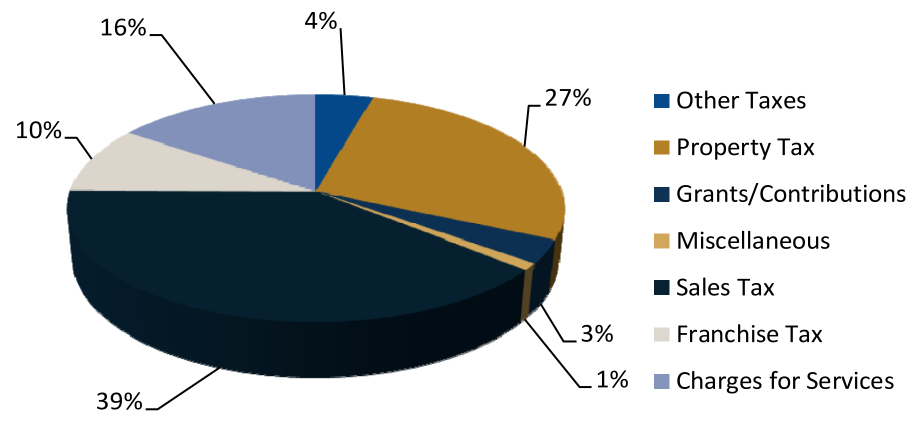
**Business-type activities.** Net position increased by $7,967,185, before a prior period adjustment of $180,536, in the current year compared to a $15,682,247 increase in fiscal year 2017. The prior period adjustment was for the implementation of GASB 75 as mentioned above. The major factor contributing to the lower increase in net position for fiscal year 2018 was decreased operating grants and contributions of $6,426,035.

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2018. Overall, the City had an increase in net position of $11,875,893 before a prior period adjustment of ($255,475) due to the implementation of GASB 75. Major factors contributing to the increase are explained in the previous two paragraphs.

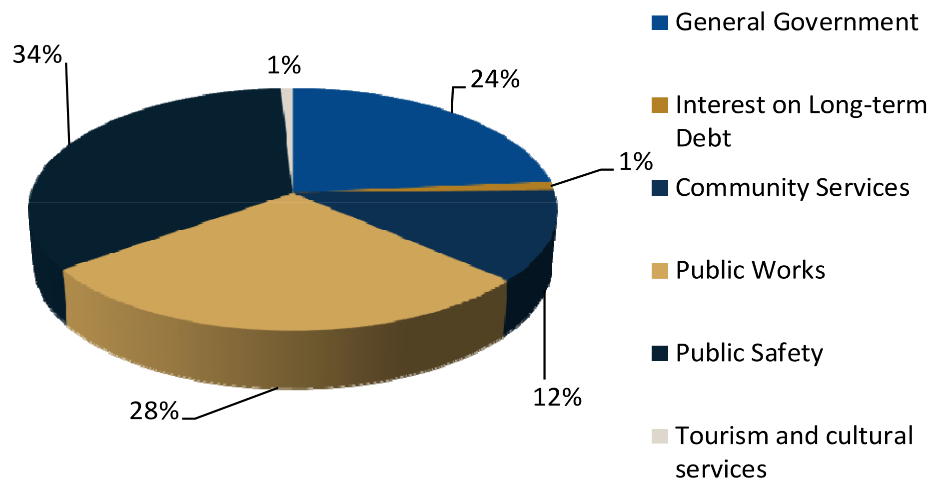
# City of Huntsville, Texas'
# Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2018 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 3,317,598 | $ 3,284,916 | $ 32,482,416 | $ 32,030,554 | $ 35,800,014 | $ 35,315,470 |
| Operating grants and contributions | 644,076 | 370,234 | 697,753 | 7,123,788 | 1,341,829 | 7,494,022 |
| Capital grants and contributions | 104,915 | 113,643 | - | - | 104,915 | 113,643 |
| General revenues: | | | | | | |
| Property taxes | 6,271,809 | 6,124,340 | - | - | 6,271,809 | 6,124,340 |
| Sales taxes | 8,973,222 | 9,001,502 | - | - | 8,973,222 | 9,001,502 |
| Franchise taxes | 2,150,356 | 2,094,257 | - | - | 2,150,356 | 2,094,257 |
| Other taxes | 995,248 | 824,729 | - | - | 995,248 | 824,729 |
| Investment earnings | 302,390 | 297,980 | 450,320 | 267,211 | 752,710 | 565,191 |
| Miscellaneous | 228,846 | 223,297 | 942,917 | 1,131,561 | 1,171,763 | 1,354,858 |
| Total revenues | 22,988,460 | 22,334,898 | 34,573,406 | 40,553,114 | 57,561,866 | 62,888,012 |
| Expenses: | | | | | | |
| General government | 5,897,776 | 6,189,702 | - | - | 5,897,776 | 6,189,702 |
| Public works | 7,117,826 | 6,748,483 | - | - | 7,117,826 | 6,748,483 |
| Community services | 3,019,702 | 3,618,287 | - | - | 3,019,702 | 3,618,287 |
| Public safety | 8,595,311 | 9,594,739 | - | - | 8,595,311 | 9,594,739 |
| Tourism and cultural services | 220,077 | 219,586 | - | - | 220,077 | 219,586 |
| Interest on long-term debt | 295,010 | 341,943 | - | - | 295,010 | 341,943 |
| Utility | - | - | 16,013,857 | 14,946,001 | 16,013,857 | 14,946,001 |
| Solid waste | - | - | 4,526,414 | 4,185,864 | 4,526,414 | 4,185,864 |
| Total expenses | 25,145,702 | 26,712,740 | 20,540,271 | 19,131,865 | 45,685,973 | 45,844,605 |
| Increases in net position before transfers | ( 2,157,242) | ( 4,377,842) | 14,033,135 | 21,421,249 | 11,875,893 | 17,043,407 |
| Transfers | 6,065,950 | 5,739,002 | ( 6,065,950) | ( 5,739,002) | - | - |
| Increase in net position | 3,908,708 | 1,361,160 | 7,967,185 | 15,682,247 | 11,875,893 | 17,043,407 |
| Net position, beginning | 30,510,318 | 29,149,158 | 109,779,726 | 94,097,479 | 140,290,044 | 123,246,637 |
| Prior period adjustment | ( 436,011) | - | 180,536 | - | ( 255,475) | - |
| Net position, beginning, as restated | 30,074,307 | 29,149,158 | 109,960,262 | 94,097,479 | 140,034,569 | 123,246,637 |
| Net position, ending | $ 33,983,015 | $ 30,510,318 | $ 117,927,447 | $ 109,779,726 | $ 151,910,462 | $ 140,290,044 |

Revenues - Governmental Activities
Fiscal Year 2018 (excludes transfers)




Primary Government Functional Expenses for
Governmental Activities - Fiscal Year 2018




## Financial Analysis and Budgetary Highlights of City 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 City's net resources available for spending at the end of the fiscal year.

At the end of the 2018 fiscal year, the City's governmental funds reported combined ending fund balances of $21,934,724, an increase of $370,937 from the prior year. Approximately 55% of this total amount is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is restricted to pay debt service ($374,862) and for a variety of other purposes.

**General Fund.** The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was $12,013,170, while the total fund balance was $13,811,228. 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 expenditures. Unassigned fund balance represents 55% of the General Fund expenditures, while total fund balance represents 63% of that same amount.

The final budget for fiscal year 2018 reflected a $1,230,915 drawdown of fund balance, while still providing for a sufficient reserve balance. The actual change in fund balance was an increase of $2,156,356. Contributing factors was the realization of revenues $1,481,430 over the budgeted amounts and overall expenditures $1,828,033 under budgeted amounts. Key factors affecting fund balance are as follows:

- Total General Fund revenues of $18,841,658 were increased from FY 2017 by $159,956.
    - Property tax revenue increased $183,033 from FY 2017 actuals due to an increase in values.
    - Sales tax revenue decreased by $28,280 due to a $660,000 catch up payment received in FY 2017. If the catch up payment is excluded from FY 2017 sales tax then FY 2018 sales tax is $631,720 (7.5%) greater than FY 17.
    - Other taxes increased by $46,512.
    - Charges for services increased by $12,535 while licenses and permits increased by $58,305.
    - Fines and forfeitures decreased by $101,926 primarily due to a change in state law concerning collection processes for indigent persons.
- Total General Fund expenditures of $21,931,226 increased from FY 2017 by $150,620.
    - General government expenditures increased by $324,133 from FY 2017. The most significant reason for this increase is salary and benefits costs.
    - Total public safety expenditures increased by $62,760 from FY 2017. This is a less than 1% increase.
    - Public works expenditures increased by $241,716 from FY 2017. This increase is primarily the result of increased street maintenance repairs in FY 2018.
    - Community services expenditures increased by $4,952 from FY 2017.

The actual revenues of $18,841,658 were more than the budgeted revenues by $1,481,430. Sales tax revenue and licenses and permits exceeded the budgeted amounts by $1,282,382 and $254,007, respectively. The actual expenditures of $21,931,226 were $1,828,033 less than the budgeted expenditures of $23,759,259.

Debt Service fund balance increased by $26,131. Fund balance was projected to increase by $5,316 in the final budget, and property tax revenues were more than final budgeted amounts by $8,009.

**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 respective proprietary funds are Utility – $22,572,148 and Solid Waste – $2,355,350. The net position for Utility increased $7,512,722 and Solid Waste increased $454,463. The overall change in net position for business-type activities increased by $7,967,185 which is a decrease of $7,715,062 from the FY 2017 change in net position of $15,682,247. Overall Enterprise operating revenues of $33,425,333 reflected an increase of $263,218 or an increase of 0.8% compared to FY 2017. Enterprise operating expenses of $19,693,417 reflected an increase of $1,116,776 or an increase of 6.0% over FY 2017. The increase in net position for each of the enterprise funds can be attributed to an increase in consumption and charges for services for public utility service provided.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2018, the City had $141,381,476 invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, and water and sewer lines. This amount represents a net increase of approximately 4.67% over the amounts for the prior fiscal year.

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land | $ 1,872,245 | $ 1,872,245 | $ 782,325 | $ 782,325 | $ 2,654,570 | $ 2,654,570 |
| Construction in progress | 1,766,807 | 536,230 | 8,451,786 | 18,275,854 | 10,218,593 | 18,812,084 |
| Buildings and improvements | 7,537,320 | 6,557,407 | 4,096,433 | 481,497 | 11,633,753 | 7,038,904 |
| Improvements other than buildings | 10,475,113 | 10,525,136 | 1,224,544 | 1,492,247 | 11,699,657 | 12,017,383 |
| Machinery, furniture and equipment | 4,962,673 | 5,330,653 | 137,988 | 320,993 | 5,100,661 | 5,651,646 |
| Water rights | - | - | 29,741,540 | 30,732,925 | 29,741,540 | 30,732,925 |
| Infrastructure | 5,981,565 | 6,925,456 | 64,351,137 | 51,245,085 | 70,332,702 | 58,170,541 |
| Total | $ 32,595,723 | $ 31,747,127 | $ 108,785,753 | $ 103,330,926 | $ 141,381,476 | $ 135,078,053 |

Major capital asset events during the 2018 fiscal year include the following:

- $1.4 million was spent on construction to expand a Tourism and Visitors Center facility.
- $2.9 million was spent on various wastewater projects related to Revenue Bonds issued in 2018.
- $1.4 million was spent on various other wastewater projects.

- $3.3 million was spent on water project related to Revenue Bonds issued in 2018.

- The City spent $1.2 million on land and engineering costs for new police and firefighter facilities for which construction should begin in late 2019.

- $407,000 was spent on various other Governmental Activities projects.

- In FY 2018 the City purchased new equipment and vehicles for various operations totaling approximately $1.2 million. Major purchases included a Solid Waste truck for approximately $291,000.

Additional information on the City's capital assets can be found in Note II beginning on page 42 of this report.

Debt Administration

At the end of the current fiscal year, the City had total bonded debt outstanding of $67,549,826. The remainder of the City's long-term obligations comprises compensated absences, and contractual obligations.

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| General obligation bonds | $ 3,495,731 | $ 4,864,620 | $ 1,784,269 | $ 2,220,379 | $ 5,280,000 | $ 7,084,999 |
| Certificates of obligation | 3,345,000 | 3,500,000 | 2,565,000 | 2,675,000 | 5,910,000 | 6,175,000 |
| Revenue bonds | - | - | 53,960,000 | 11,259,636 | 53,960,000 | 11,259,636 |
| Premium on bonds issued | 51,911 | 64,889 | 2,347,915 | 1,084,415 | 2,399,826 | 1,149,304 |
| Compensated absences | 1,204,906 | 1,202,465 | 300,151 | 295,272 | 1,505,057 | 1,497,737 |
| Developer TIRZ | 1,602,372 | 2,049,767 | - | - | 1,602,372 | 2,049,767 |
| | $ 9,699,920 | $ 11,681,741 | $ 60,957,335 | $ 17,534,702 | $ 70,657,255 | $ 29,216,443 |

The long-term liabilities for the City increased overall by $41,440,812 for fiscal year 2018. This was due to the debt issuance mentioned previously.

Additional information on the City's long-term debt can be found in Note II beginning on page 43 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors currently affect the City of Huntsville and were considered in developing the 2018-2019 fiscal year budget.

Sales Tax revenue makes up approximately 35% of the Revenues for General Fund. These revenues were budgeted to increase by $407,764 (5.3%) in FY 2019 from the 2018 fiscal year budgeted amount of $7,690,840.

A 1.3% increase in water volumetric rates beginning October 1, 2018 was approved. This was the seventh year of increases in the volumetric rates. The rates adopted were rates received from a rate study performed by a consultant completed in FY 2011. The major factors the consultant used in developing proposed rates for the City thru fiscal year 2030 were 1) almost $20,000,000 of debt issued in fiscal year 2012 for the expansion and improvement of the drinking water treatment plant from which the City obtains 75% of its water and 2) projection for the need of approximately $650,000 annually for the replacement and renewal of decades old existing water distribution infrastructure. Also included in developing the rate are anticipated expenditure increases due to normal inflation increases to operating costs.

The property tax rate of $0.3666 per $100 valuation for FY 2018 was reduced for FY 2019 to $0.3422. For fiscal year 2019 General Fund's budgeted expenditures for regular operations were increased by approximately 4.2% ($988,500) from FY 2018. Also, there were $1,097,000 of General Fund one time only non-operational expenditures budgeted to be paid from Fund Balance.

Interest rates are expected to remain at low levels throughout fiscal year 2018-19.

The unemployment rate for the City of Huntsville in September 2018 was 4.1 percent, which is a decrease of 1.2% from the September 2017 rate of 5.3 percent.

## Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, 1212 Avenue M, Huntsville, Texas 77340.

# BASIC
# FINANCIAL STATEMENTS

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# CITY OF HUNTSVILLE, TEXAS
## STATEMENT OF NET POSITION
## SEPTEMBER 30, 2018

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and investments | $ 28,206,913 | $ 74,207,978 | $ 102,414,891 |
| Prepaid expenses | 18,033 | 10,000 | 28,033 |
| Accounts receivable (net of allowances for uncollectable): | | | |
| Accounts | 127,082 | 3,444,095 | 3,571,177 |
| Taxes | 2,325,277 | - | 2,325,277 |
| Intergovernmental | 20,060 | 18,658 | 38,718 |
| Interest | 121,236 | 203,417 | 324,653 |
| Other | 47,227 | - | 47,227 |
| Internal balances | 40,332 | ( 40,332) | - |
| Inventories | 107,054 | 267,215 | 374,269 |
| Property held for sale | 14,253 | - | 14,253 |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 451,045 | 451,045 |
| Investment in joint venture | 339,285 | - | 339,285 |
| Capital assets not being depreciated | 3,639,052 | 9,234,111 | 12,873,163 |
| Capital assets (net of accumulated depreciation) | 28,956,671 | 99,551,642 | 128,508,313 |
| Total assets | 63,962,475 | 187,347,829 | 251,310,304 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred loss on bond refunding | - | 75,959 | 75,959 |
| Deferred outflows of resources related to pensions | 1,898,044 | 573,090 | 2,471,134 |
| Deferred outflows of resources related to SDBF OPEB | 53,847 | 16,258 | 70,105 |
| Total deferred outflows of resources | 1,951,891 | 665,307 | 2,617,198 |
| **LIABILITIES** | | | |
| Accounts payable | 1,045,617 | 1,447,847 | 2,493,464 |
| Accrued liabilities | 512,924 | 69,043 | 581,967 |
| Accrued interest | 31,575 | - | 31,575 |
| Liabilities payable from restricted assets: | | | |
| Accrued interest | - | 283,413 | 283,413 |
| Due to other governments | 168,241 | 26,617 | 194,858 |
| Other liabilities | 129,873 | - | 129,873 |
| Customer deposits | - | 1,159,195 | 1,159,195 |
| Noncurrent liabilities: | | | |
| Due within one year: | | | |
| Long-term debt | 2,304,379 | 4,708,434 | 7,012,813 |
| Due in more than one year: | | | |
| Long-term debt | 7,395,541 | 56,248,901 | 63,644,442 |
| Net pension liability | 12,392,580 | 3,741,779 | 16,134,359 |
| Total SDBF OPEB liability | 732,381 | 221,132 | 953,513 |
| Net retiree health OPEB liability | 5,177,757 | 1,563,236 | 6,740,993 |
| Total liabilities | 29,890,868 | 69,469,597 | 99,360,465 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred inflows of resources related to pensions | 1,830,855 | 552,802 | 2,383,657 |
| Deferred inflows of resources related to retiree health OPEB | 209,628 | 63,290 | 272,918 |
| Total deferred inflows of resources | 2,040,483 | 616,092 | 2,656,575 |
| **NET POSITION** | | | |
| Net investment in capital assets | 25,703,081 | 92,999,949 | 118,703,030 |
| Restricted for: | | | |
| Library - nonspendable | 106,914 | - | 106,914 |
| Cemetery - nonspendable | 354,873 | - | 354,873 |
| Debt service | 425,706 | - | 425,706 |
| Promotion of tourism | 598,162 | - | 598,162 |
| Court technology and security | 223,933 | - | 223,933 |
| Purpose of grantors, trustees and donors | 687,721 | - | 687,721 |
| Law enforcement | 395,786 | - | 395,786 |
| Unrestricted | 5,486,839 | 24,927,498 | 30,414,337 |
| Total net position | $ 33,983,015 | $ 117,927,447 | $ 151,910,462 |

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

# CITY OF HUNTSVILLE, TEXAS

## STATEMENT OF ACTIVITIES

## FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

| | | Program Revenues | | |
|---|---|---|---|---|
| Function/Program Activities | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government | | | | |
| Governmental activities: | | | | |
| General government | $ 5,897,776 | $ 247,303 | $ 59,721 | $ 3,036 |
| Public safety | 8,595,311 | 1,607,079 | 548,286 | 101,879 |
| Public works | 7,117,826 | 814,881 | - | - |
| Community services | 3,019,702 | 230,827 | 19,888 | - |
| Tourism and cultural services | 220,077 | 417,508 | 16,181 | - |
| Interest on long-term debt | 295,010 | - | - | - |
| Total governmental activities | 25,145,702 | 3,317,598 | 644,076 | 104,915 |
| Business-type activities: | | | | |
| Utility | 16,013,857 | 26,765,735 | 681,711 | - |
| Solid waste | 4,526,414 | 5,716,681 | 16,042 | - |
| Total business-type activities | 20,540,271 | 32,482,416 | 697,753 | - |
| Total primary government | $ 45,685,973 | $ 35,800,014 | $ 1,341,829 | $ 104,915 |

General revenues:
Taxes:
Property
Sales
Franchise
Other
Unrestricted investment earnings
Miscellaneous
Transfers
Total general revenues and transfers

Change in net position

Net position, beginning

Prior period adjustment

Net position, beginning as restated

Net position, ending

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

| Net (Expense) Revenues and Changes in Net Position | | |
|---|---|---|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| | | |
| $( 5,587,716) | $ - | $( 5,587,716) |
| ( 6,338,067) | - | ( 6,338,067) |
| ( 6,302,945) | - | ( 6,302,945) |
| ( 2,768,987) | - | ( 2,768,987) |
| 213,612 | - | 213,612 |
| ( 295,010) | - | ( 295,010) |
| ( 21,079,113) | - | ( 21,079,113) |
| | | |
| - | 11,433,589 | 11,433,589 |
| - | 1,206,309 | 1,206,309 |
| - | 12,639,898 | 12,639,898 |
| | | |
| ( 21,079,113) | 12,639,898 | ( 8,439,215) |
| | | |
| 6,271,809 | - | 6,271,809 |
| 8,973,222 | - | 8,973,222 |
| 2,150,356 | - | 2,150,356 |
| 995,248 | - | 995,248 |
| 302,390 | 450,320 | 752,710 |
| 228,846 | 942,917 | 1,171,763 |
| 6,065,950 | ( 6,065,950) | - |
| 24,987,821 | ( 4,672,713) | 20,315,108 |
| | | |
| 3,908,708 | 7,967,185 | 11,875,893 |
| | | |
| 30,510,318 | 109,779,726 | 140,290,044 |
| | | |
| ( 436,011) | 180,536 | ( 255,475) |
| | | |
| 30,074,307 | 109,960,262 | 140,034,569 |
| | | |
| $ 33,983,015 | $ 117,927,447 | $ 151,910,462 |

# CITY OF HUNTSVILLE, TEXAS

## BALANCE SHEET

## GOVERNMENTAL FUNDS

## SEPTEMBER 30, 2018

| | General | Debt Service | General Improvements | Other Governmental | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and investments | $ 13,582,669 | $ 371,063 | $ 2,520,503 | $ 5,241,643 | $ 21,715,878 |
| Receivables (net of allowance for uncollectibles): | | | | | |
| Accounts | 85,231 | - | - | 41,851 | 127,082 |
| Taxes | 2,172,034 | 86,218 | - | 67,025 | 2,325,277 |
| Intergovernmental | - | - | - | 20,060 | 20,060 |
| Interest | 95,839 | - | 6,581 | 7,399 | 109,819 |
| Other | 47,227 | - | - | - | 47,227 |
| Due from other funds | 42,346 | - | - | 6 | 42,352 |
| Inventory | 107,054 | - | - | - | 107,054 |
| Property held for sale | - | - | - | 14,253 | 14,253 |
| Prepaids | 18,033 | - | - | - | 18,033 |
| Total assets | 16,150,433 | 457,281 | 2,527,084 | 5,392,237 | 24,527,035 |
| **LIABILITIES** | | | | | |
| Accounts payable | 650,521 | - | 63,282 | 49,384 | 763,187 |
| Accrued liabilities | 494,688 | - | - | 18,236 | 512,924 |
| Due to other funds | 163 | - | - | 1,857 | 2,020 |
| Due to other governments | 130,313 | - | - | 37,928 | 168,241 |
| Unearned revenue | 635,025 | - | - | - | 635,025 |
| Other liabilities | 129,873 | - | - | - | 129,873 |
| Total liabilities | 2,040,583 | - | 63,282 | 107,405 | 2,211,270 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Unavailable revenue | 298,622 | 82,419 | - | - | 381,041 |
| Total deferred inflows of resources | 298,622 | 82,419 | - | - | 381,041 |
| Fund balances: | | | | | |
| Nonspendable | 125,087 | - | - | 461,787 | 586,874 |
| Restricted | - | 374,862 | 2,463,802 | 1,905,602 | 4,744,266 |
| Assigned | 1,672,971 | - | - | 2,917,443 | 4,590,414 |
| Unassigned | 12,013,170 | - | - | - | 12,013,170 |
| Total fund balances | 13,811,228 | 374,862 | 2,463,802 | 5,284,832 | 21,934,724 |
| Total liabilities, deferred inflows of resources and fund balances | $ 16,150,433 | $ 457,281 | $ 2,527,084 | $ 5,392,237 | $ 24,527,035 |

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

# CITY OF HUNTSVILLE, TEXAS

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

### SEPTEMBER 30, 2018

| | |
|---|---|
| Total fund balances - governmental funds balance sheet | $ 21,934,724 |
| Amounts reported for governmental activities in the statement of net position are different | |
| Capital assets used in governmental activities are not reported in the funds. | 28,822,982 |
| Property taxes receivable, related penalties and interest, and franchise fees are unavailable to pay for current period expenditures are reported as deferred inflows of resources in the funds. | 889,486 |
| Court fines receivable unavailable to pay for current period expenditures are reported as deferred inflows of resources in the funds. | 126,580 |
| Payables for bond interest which are not due in the current period are not reported in the funds. | ( 31,575) |
| The investment in joint venture is not considered a financial asset. Therefore, this is not reported in the governmental funds balance sheet. | 339,285 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities consist of: | |
| Bonds payable | ( 6,840,731) |
| Bond premiums | ( 51,911) |
| Compensated absences | ( 1,204,906) |
| Net pension liability | ( 12,392,580) |
| Total SDBF OPEB liability | ( 732,381) |
| Net retiree health OPEB liability | ( 5,177,757) |
| Deferred outflows (inflows) related to pensions | 67,189 |
| Deferred outflows (inflows) related to total SDBF liability | 53,847 |
| Deferred outflows (inflows) related to net retiree health OPEB liability | ( 209,628) |
| Contractual obligation | ( 1,602,372) |
| The assets and liabilities of Internal Service Funds are included in governmental activities in the statement of net position. | 9,992,763 |
| Net position of governmental activities - statement of net position | $ 33,983,015 |

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

# CITY OF HUNTSVILLE, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

## GOVERNMENTAL FUNDS

## FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

| | General | Debt Service | General Improvements | Other Governmental | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes: | | | | | |
| Property | $ 4,520,792 | $ 1,519,383 | $ - | $ 234,140 | $ 6,274,315 |
| Sales | 8,973,222 | - | - | - | 8,973,222 |
| Franchise | 2,130,771 | - | - | - | 2,130,771 |
| Other | 108,100 | - | - | 887,148 | 995,248 |
| Licenses and permits | 849,707 | - | - | - | 849,707 |
| Charges for sales and services | 462,437 | 330,501 | - | 518,326 | 1,311,264 |
| Fines, fees, and forfeitures | 1,328,658 | - | - | 230,166 | 1,558,824 |
| Donations, contributions, and grants | 213,069 | - | - | 136,965 | 350,034 |
| Investment earnings | 147,116 | 14,306 | 57,489 | 83,479 | 302,390 |
| Miscellaneous | 107,786 | - | - | 345 | 108,131 |
| Total revenues | 18,841,658 | 1,864,190 | 57,489 | 2,090,569 | 22,853,906 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 5,955,931 | - | - | 28,054 | 5,983,985 |
| Public safety | 8,058,826 | - | - | 825,612 | 8,884,438 |
| Public works | 4,703,443 | - | 3,034,762 | 149,633 | 7,887,838 |
| Community services | 2,992,949 | - | - | 822,381 | 3,815,330 |
| Tourism and cultural services | 220,077 | - | - | - | 220,077 |
| Debt service: | | | | | |
| Principal retirement | - | 1,523,889 | - | - | 1,523,889 |
| Interest and fiscal charges | - | 314,170 | - | - | 314,170 |
| Total expenditures | 21,931,226 | 1,838,059 | 3,034,762 | 1,825,680 | 28,629,727 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | ( 3,089,568) | 26,131 | ( 2,977,273) | 264,889 | ( 5,775,821) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Transfers in | 6,135,248 | - | 1,688,000 | 223,632 | 8,046,880 |
| Transfers out | ( 970,132) | - | ( 375,161) | ( 635,637) | ( 1,980,930) |
| Sale of capital assets | 80,808 | - | - | - | 80,808 |
| Total other financing sources (uses) | 5,245,924 | - | 1,312,839 | ( 412,005) | 6,146,758 |
| **NET CHANGE IN FUND BALANCES** | 2,156,356 | 26,131 | ( 1,664,434) | ( 147,116) | 370,937 |
| **FUND BALANCES, BEGINNING** | 11,654,872 | 348,731 | 4,128,236 | 5,431,948 | 21,563,787 |
| **FUND BALANCES, ENDING** | $ 13,811,228 | $ 374,862 | $ 2,463,802 | $ 5,284,832 | $ 21,934,724 |

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

# CITY OF HUNTSVILLE, TEXAS

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

### FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | $ | 370,937 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation. This is the amount of capital assets recorded in the current period. | | 3,109,206 |
| Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expenditures in the governmental funds. | ( | 1,951,829) |
| The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Debt issued or incurred: | | |
| Bond premium | | 12,978 |
| Repayment of principal of long-term debt | | 1,523,889 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Property taxes | ( | 2,506) |
| Franchise fees | | 19,585 |
| Change in equity interest in joint venture | | 36,667 |
| Court fines and fees | ( | 2,705) |
| Current year changes in certain long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Compensated absences | ( | 2,441) |
| Net pension liability | ( | 117,026) |
| Total SDBF OPEB liability | ( | 52,602) |
| Net retiree health OPEB liability | ( | 119,642) |
| Contractual obligation | | 447,395 |
| Interest is accrued in the government-wide financial statements but not at the fund level. This represents the change in the accrual during the period. | | 6,182 |
| The net revenue (expense) of internal service funds is reported with governmental activities. | | 630,620 |
| Change in net position of governmental activities - statement of activities | $ | 3,908,708 |

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

# CITY OF HUNTSVILLE, TEXAS
## STATEMENT OF NET POSITION
## PROPRIETARY FUND
## SEPTEMBER 30, 2018

| | Enterprise Funds | | Total | Internal |
|---|---|---|---|---|
| | Utility | Solid Waste | Enterprise | Service |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and investments | 70,072,675 | 4,135,303 | $ 74,207,978 | $ 6,491,035 |
| Accounts receivable (net of allowance for uncollectibles): | | | | |
| Accounts | 2,776,786 | 667,309 | 3,444,095 | - |
| Intergovernmental | 18,658 | - | 18,658 | - |
| Interest | 192,858 | 10,559 | 203,417 | 11,417 |
| Inventories | 267,215 | - | 267,215 | - |
| Prepaids | 10,000 | - | 10,000 | - |
| Restricted assets: | | | | |
| Cash and cash equivalents | 451,045 | - | 451,045 | - |
| Total current assets | 73,789,237 | 4,813,171 | 78,602,408 | 6,502,452 |
| Noncurrent assets: | | | | |
| Capital assets not being depreciated | 9,234,111 | - | 9,234,111 | - |
| Capital assets (net of accumulated depreciation) | 95,651,010 | 3,900,632 | 99,551,642 | 3,772,741 |
| Total noncurrent assets | 104,885,121 | 3,900,632 | 108,785,753 | 3,772,741 |
| Total assets | 178,674,358 | 8,713,803 | 187,388,161 | 10,275,193 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred loss on bond refunding | 75,959 | - | 75,959 | - |
| Deferred outflow related to pensions | 403,504 | 169,586 | 573,090 | - |
| Deferred outflow related to SDBF OPEB | 11,447 | 4,811 | 16,258 | - |
| Total deferred outflows of resources | 490,910 | 174,397 | 665,307 | - |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | 1,340,369 | 107,478 | 1,447,847 | 282,430 |
| Accrued liabilities | 50,339 | 18,704 | 69,043 | - |
| Customer deposits | 751,550 | 407,645 | 1,159,195 | - |
| Liabilities payable from restricted assets: | | | | |
| Accrued interest payable | 271,251 | 12,162 | 283,413 | - |
| Due to other funds | 18,723 | 21,609 | 40,332 | - |
| Due to other governments | - | 26,617 | 26,617 | - |
| Noncurrent liabilities due within one year | 4,567,038 | 141,396 | 4,708,434 | - |
| Total current liabilities | 6,999,270 | 735,611 | 7,734,881 | 282,430 |
| Noncurrent liabilities: | | | | |
| Due in more than one year: | | | | |
| Long-term debt | 53,479,870 | 2,769,031 | 56,248,901 | - |
| Net pension liability | 2,634,532 | 1,107,247 | 3,741,779 | - |
| Total SDBF OPEB liability | 155,696 | 65,436 | 221,132 | - |
| Net retiree health OPEB liability | 1,100,804 | 462,432 | 1,563,236 | - |
| Total noncurrent liabilities | 57,370,902 | 4,404,146 | 61,775,048 | - |
| Total liabilities | 64,370,172 | 5,139,757 | 69,509,929 | 282,430 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred inflow related to pensions | 389,220 | 163,582 | 552,802 | - |
| Deferred inflow related to retiree health OPEB | 44,568 | 18,722 | 63,290 | - |
| Total deferred inflows of resources | 433,788 | 182,304 | 616,092 | - |
| **NET POSITION** | | | | |
| Net investment in capital assets | 91,789,160 | 1,210,789 | 92,999,949 | 3,772,741 |
| Unrestricted | 22,572,148 | 2,355,350 | 24,927,498 | 6,220,022 |
| Total net position | $ 114,361,308 | $ 3,566,139 | $ 117,927,447 | $ 9,992,763 |

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

# CITY OF HUNTSVILLE, TEXAS

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

## PROPRIETARY FUND

## FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Utility | Solid Waste | Total Enterprise | Internal Service |
| **OPERATING REVENUES** | | | | |
| Charges for services: | | | | |
| Water and wastewater sales | $ 26,492,394 | $ - | $ 26,492,394 | $ - |
| Solid waste fees - residential and commercial | - | 4,593,991 | 4,593,991 | - |
| Solid waste fees - disposal | - | 1,122,690 | 1,122,690 | - |
| Inter-department services | - | - | - | 5,444,429 |
| Total service charges | 26,492,394 | 5,716,681 | 32,209,075 | 5,444,429 |
| Service fees and miscellaneous: | | | | |
| Tap and connection fees | 273,341 | - | 273,341 | - |
| Customer penalties and miscellaneous | 720,190 | 222,727 | 942,917 | 87,135 |
| Total service fees and miscellaneous | 993,531 | 222,727 | 1,216,258 | 87,135 |
| Total operating revenues | 27,485,925 | 5,939,408 | 33,425,333 | 5,531,564 |
| **OPERATING EXPENSES** | | | | |
| Administration | 1,817,461 | 793,338 | 2,610,799 | 3,451,506 |
| Water production and distribution | 6,678,298 | - | 6,678,298 | - |
| Wastewater collection and treatment | 2,452,128 | - | 2,452,128 | - |
| Solid waste collection and disposal | - | 3,520,380 | 3,520,380 | - |
| Utility billing/customer service | 762,149 | - | 762,149 | - |
| Equipment replacement | - | - | - | 112,433 |
| Depreciation | 3,544,352 | 125,311 | 3,669,663 | 1,439,827 |
| Total operating expenses | 15,254,388 | 4,439,029 | 19,693,417 | 5,003,766 |
| **OPERATING INCOME (LOSS)** | 12,231,537 | 1,500,379 | 13,731,916 | 527,798 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Grants and contributions | 681,711 | 16,042 | 697,753 | - |
| Investment earnings | 390,296 | 60,024 | 450,320 | 93,427 |
| Loss on disposal of capital assets | - | - | - | 9,395 |
| Interest expense | ( 759,469) | ( 87,385) | ( 846,854) | - |
| Total nonoperating revenues (expenses) | 312,538 | ( 11,319) | 301,219 | 102,822 |
| **INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS** | 12,544,075 | 1,489,060 | 14,033,135 | 630,620 |
| Transfers in | 52,821 | - | 52,821 | - |
| Transfers out | ( 5,084,174) | ( 1,034,597) | ( 6,118,771) | - |
| **CHANGE IN NET POSITION** | 7,512,722 | 454,463 | 7,967,185 | 630,620 |
| **NET POSITION, BEGINNING** | 106,725,343 | 3,054,383 | 109,779,726 | 9,362,143 |
| **PRIOR PERIOD ADJUSTMENT** | 123,243 | 57,293 | 180,536 | - |
| **NET POSITION, BEGINNING, AS RESTATED** | 106,848,586 | 3,111,676 | 109,960,262 | 9,362,143 |
| **NET POSITION, ENDING** | $ 114,361,308 | $ 3,566,139 | $ 117,927,447 | $ 9,992,763 |

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

# CITY OF HUNTSVILLE, TEXAS

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

## FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Utility | Solid Waste | Total Enterprise | Internal Service |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash received from customers | $ 29,808,438 | $ 5,926,199 | $ 35,734,637 | $ - |
| Interfund services provided and used | - | - | - | 5,773,863 |
| Cash payments to employees for services | ( 2,550,430) | ( 871,708) | ( 3,422,138) | - |
| Cash payments to suppliers for goods and services | ( 10,257,813) | ( 3,607,702) | ( 13,865,515) | ( 3,893,243) |
| Net cash provided by operating activities | 17,000,195 | 1,446,789 | 18,446,984 | 1,880,620 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Operating grants | 681,711 | 16,042 | 697,753 | - |
| Transfers from other funds | 52,821 | - | 52,821 | - |
| Transfers to funds | ( 5,084,174) | ( 1,034,597) | ( 6,118,771) | - |
| Net cash provided (used) by by noncapital financing activities | ( 4,349,642) | ( 1,018,555) | ( 5,368,197) | - |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Principal repayment on long-term debt | ( 3,575,748) | ( 110,000) | ( 3,685,748) | - |
| Interest and fiscal charges on debt | 46,989,091 | ( 99,800) | 46,889,291 | - |
| Acquisition or construction of capital assets | ( 8,905,740) | ( 218,750) | ( 9,124,490) | ( 1,131,046) |
| Proceeds from the disposition of capital assets | - | - | - | 9,395 |
| Net provided (used) by for capital and related financing activities | 34,507,603 | ( 428,550) | 34,079,053 | ( 1,121,651) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest and dividends on investments | 245,339 | 61,460 | 306,799 | 92,054 |
| Net cash provided by investing activities | 245,339 | 61,460 | 306,799 | 92,054 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 47,403,495 | 61,144 | 47,464,639 | 851,023 |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | 23,120,225 | 4,074,159 | 27,194,384 | 5,640,012 |
| **CASH AND CASH EQUIVALENTS, ENDING** | $ 70,523,720 | $ 4,135,303 | $ 74,659,023 | $ 6,491,035 |

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

# CITY OF HUNTSVILLE, TEXAS

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

## FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

| | Enterprise Funds | | | |
|---|---|---|---|---|
| | Utility | Solid Waste | Total Enterprise | Internal Service |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | | | |
| Operating income (loss) | $ 12,231,537 | $ 1,500,379 | $ 13,731,916 | $ 527,798 |
| Adjustments to reconcile operating income to net cash used by operating activities: | | | | |
| Depreciation | 3,544,352 | 125,311 | 3,669,663 | 1,439,827 |
| Change in assets and liabilities: | | | | |
| Decrease (increase) in receivables | 2,322,267 | ( 12,334) | 2,309,933 | 242,299 |
| Decrease (increase) in inventories | ( 69,414) | - | ( 69,414) | - |
| Decrease (increase) in interfund receivables | 246 | - | 246 | - |
| Decrease (increase) in deferred loss related to bond refunding | 25,321 | - | 25,321 | - |
| Decrease (increase) in deferred outflows related to pensions | 93,256 | 207,369 | 300,625 | - |
| Decrease (increase) in deferred outflows related to SDBF OPEB | ( 11,447) | ( 4,811) | ( 16,258) | - |
| Increase (decrease) in accounts payable | ( 661,981) | ( 33,280) | ( 695,261) | ( 329,304) |
| Increase (decrease) in accrued liabilities | 6,678 | ( 5,920) | 758 | - |
| Increase (decrease) in customer deposits | 52,960 | ( 10,445) | 42,515 | - |
| Increase (decrease) in compensated absences | 5,030 | ( 154) | 4,876 | - |
| Increase (decrease) in interfund payables | ( 90,734) | ( 162,961) | ( 253,695) | - |
| Increase (decrease) in net pension liability | ( 855,355) | ( 327,885) | ( 1,183,240) | - |
| Increase (decrease) in net retiree health OPEB liability | ( 408,507) | ( 177,182) | ( 585,689) | - |
| Increase (decrease) in net SDBF OPEB liability | 412,005 | 178,655 | 590,660 | - |
| Increase (decrease) in deferred inflows related to retiree health OPEB | 44,568 | 18,722 | 63,290 | - |
| Increase (decrease) in deferred inflows related to pensions | 359,413 | 151,325 | 510,738 | - |
| Total adjustments | 4,768,658 | ( 53,590) | 4,715,068 | 1,352,822 |
| Net cash provided by operating activities | $ 17,000,195 | $ 1,446,789 | $ 18,446,984 | $ 1,880,620 |

# CITY OF HUNTSVILLE, TEXAS

## STATEMENT OF FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

## SEPTEMBER 30, 2018

| | | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 35,265 |
| Total assets | | 35,265 |
| **LIABILITIES** | | |
| Accounts payable | | 35,265 |
| Total liabilities | $ | 35,265 |

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

# NOTES TO THE
# FINANCIAL STATEMENTS

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Huntsville, Texas ("the City"), included in the accompanying basic financial statements conform to the generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City's Comprehensive Annual Financial Report.

### A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and eight-member council. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the City (the primary government). Each blended component unit has a September 30 year-end.

The following blended component unit is reported as a Special Revenue Fund:

Huntsville Natural & Cultural Resources, Inc. (HNCR) is a nonprofit corporation created by the City to receive donations of land and money to provide park facilities and protection of cultural/historic amenities of the City. The City's Parks Advisory Board (all members of which are appointed by City Council) acts as Board of Directors. All decisions (financial etc.) of HNCR require the approval of the City of Huntsville's City Council. HNCR does not issue separate financial statements but financial information relating to HNCR, including its 990 (Internal Revenue Service "Return of Organization Exempt from Income Tax"), may be obtained from the City of Huntsville, 1212 Avenue M, Huntsville, Texas 77340. HNCR has only received donations of land during its existence which the City has included in its Capital Assets. No other activity occurred which would be recorded as revenue or expenditure. Consequently, no Special Revenue Fund statements have been prepared for HNCR.

### B. 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 government’s enterprise funds. Separate financial statements are provided for the governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Government-wide Financial Statements – The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given program or function is offset by the program's revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues. The effect of interfund activity within the governmental and business-type activities columns has been removed from these statements.

Fund Financial Statements – The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Each fund is considered a separate accounting entity and the operations of each fund are accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, deferred outflows/inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriated. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Separate statements are presented for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. These statements present each major fund as a separate column on the fund financial statements; all nonmajor funds are aggregated and presented in a single column.

The government wide focus is on the sustainability of the City as an entity and the change in net financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides a different focus, which allows the reader to compare and analyze the information to enhance the usefulness of the statements.

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

### Governmental Fund Types

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds (in the fund financial statements) is on the sources, uses and balance of current financial resources and include the General Fund, General Improvements Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds. The individual funds are described as follows:

Major Governmental Funds

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

***Debt Service Fund*** – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

***General Improvements Fund –*** The General Improvements Fund is used to account for the financial resources of general capital projects (including parks, general government facilities, fire stations, and the aquatic center), except those required to be accounted for in another fund.

<u>Major Proprietary Funds</u>

***Utility Fund*** –This fund accounts for the provision of water/wastewater services to the residents of the City and some residents of the county. All activities necessary to provide such services are accounted for in these funds including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

***Solid Waste Fund*** – This fund accounts for all solid waste collection and disposal services the City provided to residents (residential and commercial) of the City and some residents of the County. All activities necessary to provide such services are accounted for in these funds including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Additionally, the government reports the following fund types:

***Special Revenue Funds –*** The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are restricted to expenditures for specified purposes.

***Capital Projects Funds –*** The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by the proprietary fund types. Such resources are derived from proceeds of general obligation bonds or other sources of revenue specifically set aside for capital projects.

***Permanent Funds –*** The Permanent Funds are used to report resources that are legally restricted to the extent that only earnings and not principal, may be used for purposes that support the City's Library and Cemetery operations.

***Internal Service Funds*** – The Internal Service Funds, which provide services primarily to other funds of the government, are presented in the summary form as part of the proprietary fund financial statements. The financial statements of the Internal Service Funds are allocated by percentage of use to the governmental and business-type columns when presented at the government wide level**.** Various operations are accounted for as Internal Service Funds, such as operational costs associated with automobile and heavy equipment and repairing City owned facilities, operational costs associated with the City's computer equipment within various departments, as well as jointly shared administrative departments.

***Agency Fund***s – This fund is used to accumulate resources for scholarships and employee assistance that the City is holding on-behalf of other individuals and entities.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to timing of revenue and expenditure recognition in the financial statements.

The government-wide statements and proprietary funds fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and operating statements present increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled utility services which are accrued. Expenses are recognized at the time the liability is incurred. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenues available if they are collected within sixty (60) days after year-end. Expenditures are recognized when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which are recorded when due, and compensated absences, which are recorded when payable from currently available financial resources.

Ad valorem, sales, hotel, and franchise tax revenues recorded in the Governmental Funds are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earning on investments) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

**D. <u>Assets, Deferred Outflows/Inflows of Resources, Liabilities and Net Position or Fund Balance</u>**

**Cash and Investments**

For cash flow purposes, cash and cash equivalents consist of demand deposits, certificates of deposits and deposits in authorized investment pools.

Texas State law requires the City to adopt written investment policies. The City's investment policies are reviewed each year by Council and were last amended on September 18, 2018. The investment policy was first adopted in March, 1990, and also amended October 1, 1990, February 8, 1994, December 12, 1995, February 19, 1998, February 8, 2000, and September 28, 2001. Authorized investments include those outlined in the Texas Government Code. Authorized investments include:

- Obligations of the United States or its agencies and instrumentalities;
- Direct obligations of the State of Texas or its agencies and instrumentalities;
- Obligations that the principal of and interest in which are unconditionally guaranteed by the State of Texas, or the United States or its agencies and instrumentalities;
- Certain certificates of deposit issued by state and national banks domiciled in Texas;
- Certain prime domestic bankers' acceptances (Texas Government Code Section 2256.009);
- Commercial paper with a stated maturity of 270 days or less rated not less than A-1 or P-1;
- Fully collateralized repurchase agreements; and
- Public funds investment pools approved by resolution of the City Council.

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

**Public Funds Investment Pools**

Public funds investment pools in Texas ("Pools") are established under the authority of the interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its share.

### Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or legal agreements. The "Construction funds account" is used to report those proceeds of revenue bond issuance and/or certificate of obligation issuances that are restricted for use in construction. The "revenue bond interest and sinking account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "bond reserve account" is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account.

### Property Taxes and Other Receivables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade receivables are reviewed at year-end to establish or update the provisions for estimated uncollectible receivables. These provisions are estimated based on an analysis of an aging of the year-end accounts receivable balance and/or the historical rate of uncollectibility.

Property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. The net receivables collected during 2018 and those considered “available” at year-end are recognized as revenues in 2018. The City considers property taxes available if they are collected within 60 days after year-end. Prior year levies were recorded using these same principles. The remaining receivables are reflected as unavailable revenue.

In accordance with governing statutes, property taxes were levied on October 1, 2017, to provide a revenue source to be used to finance the current year's budget. Taxes levied on October 1, 2017, were due and payable by January 31, 2018. On January 1, 2018, a tax lien is attached to property to secure the payment of all taxes, penalties and interest ultimately imposed for one year on that property. After January 31, 2018, unpaid taxes began to accrue a penalty and interest charge until paid. On July 1, 2018, after levy, delinquent taxes were turned over to the City's delinquent tax attorney for collection and/or filing of suit for collection. The City is prohibited from charging off real property taxes without specific statutory authority from the Texas Legislature.

### Inventories and Prepaid Items

Inventories are valued at cost using the average cost method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased

**Interfund Transactions**

Interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except interfund services provided and used and reimbursements, are reported as transfers. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**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 is reporting balances for deferred losses on bond refundings in both the government-wide Statement of Net Position and the Statement of Net Position – Proprietary Funds. A deferred loss on a bond refunding results when the reacquisition price of the refunded debt exceeds the carrying value. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Additionally, pension and OPEB contributions subsequent to the measurement date are deferred and recognized in the following fiscal year. The changes in actuarial assumptions are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

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

| | General | Debt Service | Total |
|---|---|---|---|
| Property taxes | $ 105,576 | $ 41,335 | $ 146,911 |
| Property tax penalties and interest | 66,466 | 41,084 | 107,550 |
| Court fines and fees receivable | 126,580 | - | 126,580 |
| Total | $ 298,622 | $ 82,419 | $ 381,041 |

**Compensated Absences**

Vested or accumulated vacation leave is reported as an expenditure and a fund liability of the governmental fund that will pay what has matured, for example, as a result of employee resignations and retirements. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to permit employees to accumulate unused sick pay benefits. The City has a policy to pay a portion of unused sick pay benefits when employees separate from service. In the government wide financial statements and proprietary fund types, the liabilities are included in the statements.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at their historical cost or estimated historical cost if actual historical cost is not available. Donated assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized, not including infrastructure assets, have an original cost of $5,000 or more and an expected useful life of over one year.

Depreciation of assets not following the modified approach is computed using the straight-line method on the composite assets based upon the estimated useful lives as follows:

| | |
|---|---|
| Water production and distribution systems | 10-50 years |
| Wastewater collection and disposal systems | 10-50 years |
| Buildings and improvements | 25 years |
| Machinery, tools and equipment | 5-10 years |
| Automotive equipment | 5 years |
| Office furniture and equipment | 3-5 years |

**Long-term Obligations**

The portion of long-term general obligation debt used to finance proprietary fund operations and payable from the revenues of the Enterprise Funds is recorded in such funds. General obligation bonds and other forms of long-term debt supported by general revenues are obligations of the City as a whole and not its individual funds. Accordingly, such unmatured obligations of the City are accounted for on the statement of net position and payments of principal and interest relating to the general obligation bonds are recorded as expenditures when they are paid in the fund statements. Self-supporting general obligation debt, which will be repaid from non-general revenue sources, is recorded in the appropriate proprietary fund.

**Bond Premiums and Discounts**

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period on the fund financial statements. Bond proceeds are reported as another financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

For proprietary fund types and on the government-wide statements, premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

**Proprietary Funds Operating and Nonoperating Revenues and Expenses**

The proprietary fund types are used to account for the City's organization and activities which are similar to those often found in the private sector. These funds are financed and operated in a manner similar to private business enterprises - where the intent of the City is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered mainly through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle on-going operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Net Position Flow Assumption**

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

**Fund Balance Flow 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 same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**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 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 City for specific purposes but do not meet the criteria to be classified as committed. The City Council (Council) has by resolution authorized the finance director to assign fund balance. The Council may also 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.

**Pensions**

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

**Post-Employment Benefits Other Than Pensions (OPEB)**

***Supplemental Death Benefit.*** For purposes of measuring the total Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF) OPEB liability, related deferred outflows and inflows of resources, and expense, City specific information about its total TMRS SDBF liability and additions to/deductions from the City's total TMRS SDBF liability have been determined on the same basis as they are reported by TMRS. The TMRS SDBF expense and deferred (inflows)/outflows of resources related to TMRS SDBF, primarily result from changes in the components of the total TMRS SDBF liability. Most changes in the total TMRS SDBF liability will be included in TMRS SDBF expense in the period of the change. For example, changes in the total TMRS SDBF liability resulting from current-period service cost, interest on the TOL, and changes of benefit terms are required to be included in TMRS SDBF expense immediately. Changes in the total TMRS SDBF liability that have not been included in TMRS SDBF expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to TMRS SDBF.

***Retiree Health Insurance.*** For purposes of measuring the net OPEB liability, OPEB related deferred inflows of resources, and OPEB expense, benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Contributions are not required but are measured as payments by the City for benefits due and payable that are not reimbursed by plan assets. Information regarding the City's net OPEB liability is obtained from a report prepared by a consulting actuary, Lewis & Ellis.

## II. DETAILED NOTES ON ALL FUNDS

### Deposits and Investments

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

| Investment Type | Total Reported Value | Weighted Average Maturity (Days) |
|---|---|---|
| Cash deposits | $ 1,498,566 | - |
| Money market | 17,279,514 | 363 |
| Corporate Securities | 496,200 | 531 |
| TexPool Prime | 8,430,152 | 57 |
| Texas CLASS | 26,652,522 | 62 |
| Texas Term | 7,800,405 | 87 |
| LOGIC | 23,818 | 70 |
| U. S. agency securities | 22,923,633 | 323 |
| Municipal bonds | 17,796,391 | 781 |
| Total portfolio | $ 102,901,201 | |
| Portfolio weighted average maturity (days) | | 284 |

TexPool, Texas Class, and Logic have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

The City invests in external investment pools with a credit rating of AAA.

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

The City has the following recurring fair value measurements as of September 30, 2018:

- Municipal bonds of $2,028,782, U.S. Agency securities of $16,085,065 and Corporate securities of $496,200 are valued using documented trade history in exact security pricing model (Level 1 inputs).

- U.S. Agency securities of $1,726,745, $1,197,360 and $3,914,463 are valued using option-adjusted discounted cash flow, present value of expected fund cash flow pricing models and documented trade history in exact securities (Level 2 inputs). Money markets of $17,279,514 are valued using present value of expected fund cash flow pricing model (Level 2 inputs). Municipal bonds of $15,767,609 are valued using documented trade history in exact security, option-adjusted discounted cash flow and present value of expected fund cash flow pricing models (Level 2 inputs).

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. 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.

**Analysis of Specific Deposit and Investment Risks**

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the City was not significantly exposed to credit risk The City's investment in Municipal Bond securities were rated by Moody's Investor Service. For Municipal Bond securities, 20% of the dollar value were rated A and 40% were rated Aa. The remaining 40% were rated AA by Standard and Poor's. The City's investment in U.S. Agency securities were rated AA by Standard and Poor's.

*Custodial Credit Risk* – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

As of September 30, 2018, the City's deposit balances were fully collateralized by securities held by the financial institution in the City's name or by Federal Deposit Insurance Corporation ("FDIC") insurance.

*Interest Rate Risk* – This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

*Foreign Currency Risk* – This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

## Receivables

Receivables as of year-end for the City, including applicable allowances for uncollectible accounts, are as follows:

**Governmental Funds**

| | General | Debt Service | General Improvements | Nonmajor Governmental | Total |
|---|---|---|---|---|---|
| Accounts | $ 636,016 | $ - | $ - | $ 41,851 | $ 677,867 |
| Taxes | 2,254,378 | 121,147 | - | 67,025 | 2,442,550 |
| Intergovernmental | - | - | - | 20,060 | 20,060 |
| Interest | 95,839 | - | 6,581 | 7,399 | 109,819 |
| Other | 47,227 | - | - | - | 47,227 |
| Gross Receivables | 3,033,460 | 121,147 | 6,581 | 136,335 | 3,297,523 |
| Less: Allowance for uncollectibles | ( 633,129) | ( 34,929) | - | - | ( 668,058) |
| Net receivables | $ 2,400,331 | $ 86,218 | $ 6,581 | $ 136,335 | $ 2,629,465 |

**Proprietary Funds**

| | Utility | Solid Waste | Internal Service | Total |
|---|---|---|---|---|
| Accounts | $ 2,848,280 | $ 682,532 | $ - | $ 3,530,812 |
| Intergovernmental | 18,658 | - | - | 18,658 |
| Interest | 192,858 | 10,559 | 11,417 | 214,834 |
| Gross Receivables | 3,059,796 | 693,091 | 11,417 | 3,764,304 |
| Less: Allowance for uncollectibles | ( 71,494) | ( 15,223) | - | ( 86,717) |
| Net receivables | $ 2,988,302 | $ 677,868 | $ 11,417 | $ 3,677,587 |

## Interfund Balances and Activity

### Due to and From Other Funds

Balances due to and due from other funds at September 30, 2018, consisted of the following:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Utility Fund | $ 18,723 |
| | Solid waste | 21,609 |
| | Nonmajor governmental | 2,020 |
| Total | | $ 42,352 |

Interfund balances for all of the funds are created by short-term deficiencies in cash position in the individual fund. It is anticipated that the balances will be repaid within one year or less.

## Transfers to and From Other Funds

Transfers to and from other funds at September 30, 2018, consisted of the following:

| | Transfers out | | | | | |
|---|---|---|---|---|---|---|
| | General | General Improvements | Utility | Solid Waste | Nonmajor Governmental | Total |
| Transfers in: | | | | | | |
| General | $ - | $ - | $ 5,084,174 | $ 981,776 | $ 69,298 | $ 6,135,248 |
| General Improvements | 746,500 | 375,161 | - | - | 566,339 | 1,688,000 |
| Nonmajor governmental | 223,632 | - | - | - | - | 223,632 |
| Utility | - | - | - | 52,821 | - | 52,821 |
| Total | $ 970,132 | $ 375,161 | $ 5,084,174 | $ 1,034,597 | $ 635,637 | $ 8,099,701 |

The primary purpose of interfund transfers is to transfer funds from one fund to support the expenditures of another fund in accordance with the authority established for the individual fund. A detail of significant activities is as follows:

- The City's budget provides that the General Fund will contribute funding to various funds where budgeted expenditures are in excess of expected revenues. The General Fund contributed to the following funds:
    - School Resource Officer Fund – $128,064
    - Arts Center Fund – $95,568
    - General Improvements Fund - $746,500
- The General Fund received transfers of $5,084,674 from the Utility Fund and $981,276 from the Solid Waste Fund. These transfers were paid to help fund the cost of various operating expenditures in the General Fund.

## Fund Balance

As of September 30, 2018, governmental fund balance consisted of the following:

| | General | Debt Service | General Improvements | Other Governmental | Total Governmental Funds |
|---|---|---|---|---|---|
| Fund balances: | | | | | |
| Nonspendable | | | | | |
| Inventory | $ 107,054 | $ - | $ - | $ - | $ 107,054 |
| Prepaids | 18,033 | - | - | - | 18,033 |
| Library endowment | - | - | - | 106,914 | 106,914 |
| Cemetery endowment | - | - | - | 354,873 | 354,873 |
| Restricted for: | | | | | |
| Debt service | - | 374,862 | - | - | 374,862 |
| Promotion of tourism | - | - | - | 598,162 | 598,162 |
| Court technology and security | - | - | - | 223,933 | 223,933 |
| Purpose of grantors, trustees and donors | - | - | - | 687,721 | 687,721 |
| Law enforcement | - | - | - | 395,786 | 395,786 |
| Construction of capital assets | - | - | 2,463,802 | - | 2,463,802 |
| Assigned for: | | | | | |
| Subsequent year's budget appropriation of fund balance | 904,350 | - | - | - | 904,350 |
| Economic development | 768,621 | - | - | - | 768,621 |
| Construction of capital assets | - | - | | 2,917,443 | 2,917,443 |
| Unassigned | 12,013,170 | - | - | - | 12,013,170 |

## Minimum Fund Balance Policy

The City Council has adopted a financial policy to maintain a minimum level of unassigned fund balance or unrestricted net position in all operating funds excluding internal service funds, capital projects funds, and special revenue funds. These funds shall maintain unassigned fund balance or unrestricted net position at a minimum amount of 25% of the annual budget (less transfers to capital projects funds) for each fund. This amount is intended to provide fiscal stability when economic downturns or other unexpected events occur.

## Capital Assets

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 1,872,245 | $ - | $ - | $ 1,872,245 |
| Construction in progress | 536,230 | 3,080,414 | 1,849,837 | 1,766,807 |
| Total capital assets not being depreciated | 2,408,475 | 3,080,414 | 1,849,837 | 3,639,052 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 14,091,019 | 1,502,477 | - | 15,593,496 |
| Machinery, furniture, and equipment | 24,020,865 | 1,174,944 | 764,213 | 24,431,596 |
| Improvements other than buildings | 18,521,334 | 347,360 | - | 18,868,694 |
| Infrastructure | 37,316,618 | - | - | 37,316,618 |
| Total capital assets being depreciated | 93,949,836 | 3,024,781 | 764,213 | 96,210,404 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 7,533,612 | 522,564 | - | 8,056,176 |
| Machinery, furniture, and equipment | 18,690,212 | 1,527,818 | 749,107 | 19,468,923 |
| Improvements other than buildings | 7,996,198 | 397,383 | - | 8,393,581 |
| Infrastructure | 30,391,162 | 943,891 | - | 31,335,053 |
| Total accumulated depreciation | 64,611,184 | 3,391,656 | 749,107 | 67,253,733 |
| Total capital assets being depreciated, net | 29,338,652 | ( 366,875) | 15,106 | 28,956,671 |
| Governmental activities capital assets, net | $ 31,747,127 | $ 2,713,539 | $ 1,864,943 | $ 32,595,723 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 782,325 | $ - | $ - | $ 782,325 |
| Construction in progress | 18,275,853 | 9,119,094 | 18,943,161 | 8,451,786 |
| Total capital assets not being depreciated | 19,058,178 | 9,119,094 | 18,943,161 | 9,234,111 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 1,987,100 | 3,739,682 | - | 5,726,782 |
| Machinery, furniture, and equipment | 2,868,071 | 5,396 | - | 2,873,467 |
| Improvements other than buildings | 1,900,168 | - | - | 1,900,168 |
| Water rights | 51,336,066 | - | - | 51,336,066 |
| Infrastructure | 98,323,236 | 15,203,479 | - | 113,526,715 |
| Total capital assets being depreciated | 156,414,641 | 18,948,557 | - | 175,363,198 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,505,603 | 124,746 | - | 1,630,349 |
| Machinery, furniture, and equipment | 2,547,073 | 188,406 | - | 2,735,479 |
| Improvements other than buildings | 407,921 | 267,703 | - | 675,624 |
| Water rights | 20,603,141 | 991,385 | - | 21,594,526 |
| Infrastructure | 47,078,155 | 2,097,423 | - | 49,175,578 |
| Total accumulated depreciation | 72,141,893 | 3,669,663 | - | 75,811,556 |
| Total capital assets being depreciated, net | 84,272,748 | 15,278,894 | - | 99,551,642 |
| Business-type activities capital assets, net | $ 103,330,926 | $ 24,397,988 | $ 18,943,161 | $ 108,785,753 |

Depreciation was charged to functions as follows:

| | |
|---|---|
| Governmental activities: | |
| General government | $ 1,212,942 |
| Public works | 1,448,808 |
| Community services | 470,763 |
| Public safety | 259,143 |
| Total governmental activities depreciation | $ 3,391,656 |
| Business-type activities: | |
| Water production and distribution | $ 3,544,352 |
| Solid waste disposal and collection | 125,311 |
| Total business-type activities depreciation | $ 3,669,663 |

## Long-term Obligations

### Long-term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2018, are as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| General obligation bonds | $ 4,864,620 | $ - | $( 1,368,889) | $ 3,495,731 | $ 1,411,604 |
| Certificates of obligation | 3,500,000 | - | ( 155,000) | 3,345,000 | 165,000 |
| Premium on bond issuance | 64,889 | - | ( 12,978) | 51,911 | - |
| Compensated absences | 1,202,465 | 43,656 | ( 41,215) | 1,204,906 | 301,226 |
| Developer TIRZ | 2,049,767 | - | ( 447,395) | 1,602,372 | 426,549 |
| Total governmental activities | $ 11,681,741 | $ 43,656 | $( 2,025,477) | $ 9,699,920 | $ 2,304,379 |
| Business-type activities: | | | | | |
| TRA contract revenue bonds | $ 11,259,636 | $ - | $( 3,139,636) | $ 8,120,000 | $ 3,035,000 |
| Revenue bonds | - | 45,840,000 | - | 45,840,000 | 1,040,000 |
| General obligation bonds | 2,220,379 | - | ( 436,110) | 1,784,269 | 443,396 |
| Certificates of obligation | 2,675,000 | - | ( 110,000) | 2,565,000 | 115,000 |
| Premium on bond issuance | 1,084,415 | 1,544,640 | ( 281,140) | 2,347,915 | - |
| Compensated absences | 295,272 | 11,930 | ( 7,051) | 300,151 | 75,038 |
| Total business-type activities | $ 17,534,702 | $ 47,396,570 | $( 3,973,937) | $ 60,957,335 | $ 4,708,434 |

For governmental activities, compensated absences, net pension liabilities, and OPEB obligations are generally liquidated by the General Fund.

| Liability | Activity Type | Fund |
|---|---|---|
| Compensated absences | Governmental | General |
| Developer TIRZ | Governmental | General |

**Debt Service Requirements**

| Year Ending September 30, | Governmental Activities Principal | | Governmental Activities Interest | | Governmental Activities Total | |
|---|---|---|---|---|---|---|
| 2019 | $ | 1,576,604 | $ | 263,515 | $ | 1,840,119 |
| 2020 | | 853,350 | | 226,110 | | 1,079,460 |
| 2021 | | 460,556 | | 199,651 | | 660,207 |
| 2022 | | 480,221 | | 180,910 | | 661,131 |
| 2023 | | 475,000 | | 159,823 | | 634,823 |
| 2024-2028 | | 1,775,000 | | 515,464 | | 2,290,464 |
| 2029-2033 | | 1,220,000 | | 156,750 | | 1,376,750 |
| Total | $ | 6,840,731 | $ | 1,702,222 | $ | 8,542,953 |

| Year Ending September 30, | Business-type Activities Principal | | Business-type Activities Interest | | Business-type Activities Total | |
|---|---|---|---|---|---|---|
| 2019 | $ | 4,633,396 | $ | 2,284,328 | $ | 6,917,724 |
| 2020 | | 4,826,650 | | 2,093,579 | | 6,920,229 |
| 2021 | | 3,619,444 | | 1,886,152 | | 5,505,596 |
| 2022 | | 1,774,779 | | 1,754,586 | | 3,529,365 |
| 2023 | | 1,395,000 | | 1,677,488 | | 3,072,488 |
| 2024-2028 | | 8,025,000 | | 7,302,815 | | 15,327,815 |
| 2029-2033 | | 9,975,000 | | 5,360,627 | | 15,335,627 |
| 2034-2038 | | 11,200,000 | | 3,515,100 | | 14,715,100 |
| 2039-2043 | | 12,860,000 | | 1,431,876 | | 14,291,876 |
| Total | $ | 58,309,269 | $ | 27,306,551 | $ | 85,615,820 |

At September 30, 2018, there were no authorized or unissued general obligation or revenue bonds, and the City is in compliance with all bond ordinances.

**Revenue Debt**

A summary of revenue debt outstanding at September 30, 2018, follows:

| | | |
|---|---|---|
| $6,725,000 2010C TRA Contract Refunding Revenue Bonds due in installments of $490,000 to $730,000 through 2020, interest rates from 1.00% - 4.79%. | $ | 1,425,000 |
| $19,190,000 2012 TRA Contract Revenue Bonds due in installments of $1,920,000 to $2,340,000 through 2021, interest rates from 2.00% - 4.00%. | | 6,695,000 |
| $45,840,000 2018 Water and Wastewater System Revenue Bonds due in installments of $1,040,000 to $2,390,000 through 2043, interest rates from 1.750% - 3.625%. | | 45,840,000 |
| Total outstanding revenue debt as of September 30, 2018 | $ | 53,960,000 |

## Tax Supported Debt

A summary of tax-supported debt outstanding at September 30, 2018, follows:

| | |
|---|---|
| Certificate Series 2001 issued on November 15, 2001, at an interest rate of 4.75% - 6.00% to finance the construction and related expenses of a new golf course, due in installments of $75,000 - $330,000 for principal each August 15, beginning August 15, 2004, and interest payments due each February 15 and August 15, beginning August 15, 2004. | $ 3,345,000 |
| $6,405,000 General Obligation Refunding Bonds, Series 2009, dated March 15, 2009, to refund Certificate of Obligation Series 1992 in the amount of $6,260,000. Due in annual installments of $510,000 - $870,000 beginning February 2010 with interest rates of 2.00% - 3.75%. | 870,000 |
| $3,500,000 General Obligation Bonds, Series 2010, dated April 15, 2010, to finance expansion and renovation of the municipal library. Due in annual installments of $170,000 - $295,000 with interest rates of 0.60% - 4.15%. | 1,835,000 |
| $8,150,000 General Obligation Bonds, Series 2012, dated July 23, 2012, to refund Waterworks and Sewer System Revenue Bonds, Series 2002 in the amount of $4,440,000, Combination Tax and Revenue Certificates of Obligation, Series 2004 in the amount of $270,000, and General Obligation Refunding Bonds, Series 2005 in the amount of $2,575,000. Due in annual installments of $475,000 - $1,060,000 with interest rates of 2.0% - 3.0%. | 2,575,000 |
| $2,900,000 Combination Tax and Revenue Certificates of Obligation, Series 2015, dated September 15, 2015, to be used to construct a transfer station. Due in installments of $120,000 - $200,000 with interest rates of 3.0% - 4.0%. | 2,565,000 |
| Total outstanding tax supported debt as of September 30, 2018 | $ 11,190,000 |

## Joint Venture

### Trinity River Authority

Pursuant to the agreement with Trinity River Authority (TRA) dated September 28, 1976, the City has endorsed Contract Revenue Bonds through TRA and is unconditionally obligated to pay, from the operating revenues of the City's waterworks, wastewater system, all debt service payments on these bonds; all operation and maintenance expenses of the facilities the bonds were used to build; and the amounts necessary to restore any deficiencies in funds required to be accumulated under the bond resolutions. As consideration for the aforementioned obligations, the City shall have an exclusive right to the use of the transmission and clear well storage facilities constructed. Upon the expiration of the contract, the City shall have the right to continued service for an additional period of fifty (50) years, or for such other time as may be agreed.

Financial statements for this joint venture may be obtained at Trinity River Authority of Texas, P. O. Box 60, Arlington, Texas 76004-0060.

### Walker County Public Safety Communications Center

On July 29, 1997, the City entered into an interlocal agreement with Walker County, Texas to construct, maintain, and operate a centralized and combined communications/dispatch center, hereafter called Walker County Public Safety Communication Center ("WCPSCC"). The County and the City have both agreed to fund 50% of the approved budget of the WCPSCC. Should this agreement be terminated, or declared invalid for any reason, all assets of the WCPSCC shall be determined and deemed to be jointly owned by Walker County, Texas and the City. This agreement was initially effective for three years beginning October 1, 1997 and from that point the agreement would automatically renew for successive one year terms unless otherwise terminated.

Financial statements for this joint venture may be obtained from Walker County, Texas, 1100 University Avenue, Huntsville, Texas 77340.

## Raw Water Supply Contract

On August 24, 1976, the City of Huntsville entered into a contract with the Trinity River Authority of Texas to purchase from the Authority amounts of raw water impounded in the Livingston Reservoir. The City is obligated to pay an annual standby charge on or before the tenth of each April and October. Annual standby charges are calculated by multiplying the current annual average daily amount the Authority is obligated to sell by the Authority's rates for sale of raw water to municipalities. On April 22, 1998, the City contracted with the Authority for an additional 6.0 MGD for industrial purposes. On November 1, 2006, the City contracted for an additional amount bringing the total to 20.0 MGD that the Authority is obligated to sell.

Annual average daily amounts of raw water that the Authority is obligated to sell to the City is set forth in the following schedule:

| | Annual Average Daily Amounts |
|---|---|
| 2001 through 2020 | 20.0 MGD |

**Defined Benefit Pension Policies**

***Plan Descriptions.*** The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

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

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

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

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

| | |
|---|---|
| Employee deposit rate | 7% |
| Matching ratio (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility | 20 years to any age,<br>5 years at age 60 and above |
| Updated service credit | 50% Repeating |
| Annuity increase to retirees | 50% of CPI, repeating |

***Employees covered by benefit terms***

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 194 |
| Inactive employees entitled to but not yet receiving benefits | 144 |
| Active employees | 244 |
| | 582 |

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 17.07% and 18.58% in calendar years 2016 and 2017, respectively. The City’s contributions to TMRS for the year ended September 30, 2018, were $2,503,097, and were equal to the required contributions.

***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 Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.5% per year |
| Overall payroll growth | 2.8% per year |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Health Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rate 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 became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 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% | |

### *Discount Rate*

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

***Changes in the Net Pension Liability***

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at 12/31/2016 | $ 85,059,588 | $ 63,766,817 | $ 21,292,771 |
| Changes for the year: | | | |
| Service cost | 2,005,970 | - | 2,005,970 |
| Interest | 5,674,192 | - | 5,674,192 |
| Difference between expected and actual experience | ( 635,663) | - | ( 635,663) |
| Contributions - employer | - | 2,481,100 | ( 2,481,100) |
| Contributions - employee | - | 935,151 | ( 935,151) |
| Net investment income | - | 8,834,783 | ( 8,834,783) |
| Benefit payments, including refunds of employee contributions | ( 4,000,952) | ( 4,000,952) | - |
| Administrative expense | - | ( 45,802) | 45,802 |
| Other changes | - | ( 2,321) | 2,321 |
| Net changes | 3,043,547 | - | 3,043,547 |
| Balance at 12/31/2017 | $ 88,103,135 | $ 71,968,776 | $ 16,134,359 |

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| City's net pension liability | $ 28,129,994 | $ 16,134,359 | $ 6,281,324 |

***Pension Plan Fiduciary Net Position***

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

**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 expense of $2,673,724.

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 | $ 111,160 | $ 562,720 |
| Changes in actuarial assumptions | 424,131 | - |
| Difference between projected and actual investment earnings | - | 1,820,937 |
| Contributions subsequent to the measurement date | 1,935,843 | - |
| Total | $ 2,471,134 | $ 2,383,657 |

$1,935,843 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

| For the Year Ended September 30: | |
|---|---|
| 2019 | $ 223,893 |
| 2020 | ( 81,740) |
| 2021 | ( 1,040,067) |
| 2022 | ( 950,452) |
| Total | $( 1,848,366) |

**Postemployment Benefits Other Than Pensions (OPEB) - TMRS Supplemental Death Benefits Fund**

***Plan Description.*** The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, the Plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

***Benefits Provided.*** The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and 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.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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 other employment benefit and is a fixed amount of $7,500.

The number of employees currently covered by the benefit terms is as follows:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 163 |
| Inactive employees entitled to but not yet receiving benefits | 44 |
| Active employees | 244 |
| Total | 451 |

***Contributions.*** The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.19% for 2018 and 0.17% for 2017, of which 0.04% and 0.04%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2018 and 2017 were $24,899 and $24,103, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

***Total OPEB Liability***

The City's total OPEB liability of $953,513 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

***Actuarial Assumptions and Other Inputs.*** The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation rate | 2.50% per annum |
| Discount rate | 3.31% |
| Actuarial cost method | Entry Age Normal Method |
| Projected salary increases | 3.50% to 10.5% including inflation |

Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for un the provisions of GASB Statement No. 68.

Salary increases were based on a service-related table.

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with 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 became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.31% was used to measure the total OPEB liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2017.

***Discount Rate Sensitivity Analysis.*** The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.31%) in measuring the Total OPEB Liability.

| | 1% Decrease in Discount Rate (2.31%) | Discount Rate (3.31%) | 1% Increase in Discount Rate (4.31%) |
|---|---|---|---|
| Total OPEB Liability | $ 1,162,273 | $ 953,513 | $ 793,409 |

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs.*** At September 30, 2018, the City reported a liability of $953,513 for its Total OPEB Liability. The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2017. For the year ended September 30, 2018, the City recognized OPEB expense of $75,275. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

***Changes in the Total OPEB Liability***

| | Total OPEB Liability |
|---|---|
| Balance at 12/31/2016 | $ 819,033 |
| Changes for the year: | |
| Service cost | 28,028 |
| Interest | 31,388 |
| Changes of assumptions | 80,404 |
| Benefit payments | ( 5,340) |
| Net changes | 134,480 |
| Balance at 12/31/2017 | $ 953,513 |

At September 30, 2018, the City reported deferred outflows of resources related to other post-employment benefits from the following sources:

| | Deferred Outflows of Resources |
|---|---|
| Changes in actuarial assumptions | $ 64,545 |
| Contributions subsequent to the measurement date | 5,560 |
| Totals | $ 70,105 |

$5,560 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 year ending September 30, 2019. Other amounts reported as deferred outflows related to OPEB will be recognized in OPEB expense as follows:

| For the Year Ended September 30, | |
|---|---|
| 2019 | $ 15,859 |
| 2020 | 15,859 |
| 2021 | 15,859 |
| 2022 | 15,859 |
| 2023 | 1,109 |

**<u>Postemployment Benefits Other Than Pensions (OPEB) – Retiree Health Plan</u>**

***Plan Description.*** The City provides post-retirement medical, dental, vision and life insurance benefits on behalf of its eligible retirees. The City established by ordinance the healthcare plan that covers eligible retired employees of the City. The City established an irrevocable trust (PEB Trust) and contracted with an administrator, Public Agencies Retirement Services (PARS), as well as a custodial bank, to manage the plan's assets. Because plan assets are pooled by PARS with those of other plans for investment, the City's plan assets meet the criteria of an agent multiple-employer plan under GASB Statement No. 75.

***Benefits Provided.*** The City maintains medical, dental, vision and life insurance plans covering current and retired employees and their dependents. For pre-65 retirees, the medical plan is the same as the active plan. There are two options offered: a traditional medical plan with a deductible and copay and a high deductible plan. For most of the post-65 retirees, the medical plan is a fully-insured Medicare Supplement plan. However, there are fourteen current retirees that have never participated in the Medicare program and consequently, they will continue on the active plan which will be the primary payer throughout their lifetime. The dental plan is also self-insured with two options available to retirees and active employees alike: Dental with and without Orthodontia. Retirees may remain in the dental plan regardless of age.

The vision plan is fully-insured while the dental plan is self-insured. The vision plan is 100% funded through retiree contributions. Since the retiree must pay the full premium and there is not a material implicit subsidy for these benefits, there is no liability for the City. Therefore, the vision plan was excluded from our valuation. The life insurance plan is a Supplemental Death Benefit Fund administered by TMRS. The benefit is one times the annual salary for active employees and $7,500 for retirees. A separate GASB 75 valuation was provided by TMRS (performed by GRS Retirement Consulting) which includes the required disclosures related to the life benefit. Therefore, we have excluded it from our valuation as well.

Effective 1/1/2018, a revision was made to the plan. For current and future employees hired after 1/1/2016, Retirees are only eligible to remain in the plan until age 65. In addition, these retirees are required to pay 100% of the premium cost (equivalent to the COBRA premiums). Therefore, these members' costs were assumed to be zero once attaining age 65.

For current employees hired prior to 1/1/2016, Retirees are eligible to remain on the self-funded plan prior to age 65 and may enroll in the Medicare Supplement plan once attaining Medicare eligibility; however, the City's subsidization of the cost of coverage will be eliminated effective 1/1/2028 or age 65 (whichever comes first). Therefore, these members' costs were assumed to be zero once attaining age 65. In addition, these retirees will be required to pay the COBRA premiums in order to continue to receive pre-65 coverage after 1/1/2028.

In addition, retirees will receive 67% of their remaining sick leave balance in a Retirement Health Savings Program through ICMA-RC (RHS benefit), if they are under the age of 65 on the effective date of retirement.

For current retirees, their coverage has not changed since the prior valuation. Members eligible for the subsidy will continue paying the posted premium rates paid by eligible active employees for pre-65 coverage (and post-65 coverage assuming they are not eligible for Medicare), and once attaining Medicare eligibility, retirees may enroll in the Medicare Supplement plan until death at the posted premium rates less the City's subsidy which will not exceed $412.50 per month.

The number of employees currently covered by the benefit terms is as follows:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 75 |
| Active members | 227 |
| Total | 302 |

## Actuarial Methods and Assumptions

Significant methods and assumptions were as follows:

| | |
|---|---|
| Actuarial Valuation Date | September 30, 2018 |
| Actuarial Cost Method | Individual Entry Age |
| Inflation Rate | 2.50% |
| Salary Scale | 2.50% |
| Demographic Assumptions | Based on the experience study covering the four year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS). |
| Mortality | Mortality rates for active employees were based on the RPH-2014 Employee Mortality Table, Generational with Projection Scale MP-2018 for males or females, as appropriate. Mortality rates for retirees were based on on the RPH-2014 Health Annuitant Mortality Table, Generational with Projection Scale MP-2018 for males or females, as appropriate. |
| Health care cost trend rates | The medical (including stop loss) and dental clais mosts as well as expenses are assumed to go from 6.00% in 2019 to 4.50% and 3.00% in medical and dental, respecitively. Medical and dental retiree contributions are assumed to increase at the same rate as claim costs. |
| Participation rates | It was assumed that 95% of retirees who are eligible for the City subsidy and 5% of those who are not eligible for the City subsidy would choose to receive health care benefits through the City. |
| Discount rate | The discount rate used to measure the the Total OPEB liaiblity was 7.0%. The projection of cash flows used to determine the discount assumed that Service contributions will be made that will cover all required annual benefit payments as they come due with the exception of HRA contributions the City makes to eligible employees' accounts upon retirement. |

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

There is no separately issued audited benefit plan report available for the City’s OPEB plan.

***Discount Rate.*** The discount rate used to measure the Total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that Service contributions will be made that will cover all required annual benefit payments as they become due with the exception of HRA contributions the City makes to eligible employees' accounts upon retirement. Those will be paid via PEB Trust. Based on these assumptions, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB liability.

**Changes in Net OPEB Liability**

| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
|---|---|---|---|
| Balance at 9/30/2017 | $ 10,571,731 | $ 3,713,583 | $ 6,858,148 |
| Changes for the year: | | | |
| Service cost | 43,312 | - | 43,312 |
| Interest | 731,662 | - | 731,662 |
| Difference between expected and actual experience | ( 295,877) | - | ( 295,877) |
| Contributions for benefits due | | 283,929 | ( 283,929) |
| Net investment income | | 312,323 | ( 312,323) |
| Benefit payments | ( 325,462) | ( 325,462) | - |
| Net changes | 153,635 | 270,790 | ( 117,155) |
| Balance at 9/30/2018 | $ 10,725,366 | $ 3,984,373 | $ 6,740,993 |

***Discount Rate Sensitivity Analysis.*** The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.00%) in measuring the Net OPEB Liability

| | 1% Decrease in Discount Rate (6.00%) | Discount Rate (7.00%) | 1% Increase in Discount Rate (8.00%) |
|---|---|---|---|
| City's net OPEB liability | $ 7,906,926 | $ 6,740,993 | $ 5,758,115 |

***Healthcare Cost Trend Rate Sensitivity Analysis.*** The following schedule shows the impact of the net OPEB liability if the Healthcare Cost Trend Rate used was 1% less than and 1% greater than what was used in measuring the net OPEB liability.

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| City's net OPEB liability | $ 5,770,419 | $ 6,740,993 | $ 7,882,670 |

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs.*** At September 30, 2018, the City reported a liability of $6,740,993 for its net OPEB Liability. The net OPEB Liability was determined by an actuarial valuation as of September 30, 2017. Update procedures were used to roll forward the total OPEB liability to September 30, 2018. For the year ended September 30, 2018, the City recognized OPEB expense of $439,692. There were no changes of benefit terms that affected measurement of the net OPEB liability during the measurement period.

Changes in assumptions and other inputs reflect a change in the blended discount rate from 4.00% to 7.00%.

At September 30, 2018, the City reported deferred inflows of resources related to OPEB from the following sources:

| | Deferred Inflows of Resources |
|---|---|
| Differences between expected and actual experience | $ 221,908 |
| Difference between projected and actual investment earnings | 51,010 |
| Total | $ 272,918 |

There were no contributions subsequent to the measurement date as the City's measurement date and fiscal year is September 30. Other amounts of the reported deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| For the Year Ended September 30, | |
|---|---|
| 2019 | $( 86,722) |
| 2020 | ( 86,722) |
| 2021 | ( 86,722) |
| 2022 | ( 12,752) |

## Risk Management

### Medical Insurance Fund

Claims incurred but not reported have been estimated based on information available from the fund administrator and recorded as an account payable of the fund.

The total amount for service charges (to other funds) is computed based on an actuarial method which is adjusted annually. A stop-loss insurance policy limits the City's liability on catastrophic claims. Effective January 1, 2015, the City's limit is increased from $125,000 to $150,000 per employee. There were no settlements in excess of the insurance coverage in any of the prior three fiscal years.

Changes in the balance of aggregate liabilities during the year are as follows:

| | 2018 | 2017 |
|---|---|---|
| Aggregate liabilities October 1 | $ 252,651 | $ 206,577 |
| Incurred liabilities | 2,551,429 | 2,521,114 |
| Paid liabilities | ( 2,538,268) | ( 2,475,040) |
| Aggregate liabilities September 30 | $ 265,812 | $ 252,651 |

**Public Entity Risk Pool**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. In order to properly address this risk, the City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML), a public entity risk pool. The City pays an annual premium to TML. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure though commercial companies for claims in excess of established amounts. The City's liability for any covered claims is limited to its annual deductible.

**Deferred Compensation Plan**

The City offers employees a deferred compensation plan created in accordance with Internal Service Code Section 457. The plan, available to employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In accordance with federal legislation passed in August 1996, the City amended its deferred compensation agreement, so that effective November 1996, the assets of the plan are to be held in trust for the exclusive benefit of the plan participants and their beneficiaries, and the assets will be used for no other purpose. In no event will be City's liability to pay benefits to a participant under the plan exceed the value of the amounts created to the participants' account.

The City in previous years has reported this fund in the Trust and Agency Funds. As a result of the November 1996 legislative changes, this fund has been excluded from the Financial Reports.

**Commitments and Contingencies**

1. Construction Commitments

   The City has various construction projects as of September 30, 2018. The City's remaining commitment to contractors for all projects is at $44,692,821 at year-end. Projects include water and wastewater line extensions, storm water drainage, street construction and renovation, and sidewalk construction.

2. Grants

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

**Tax Abatements**

The City enters into economic development agreements designed to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. This program reduces the assessed property values and refunds sales tax as authorized under Chapter 380 of the Texas Local Government Code.

The City has entered into various agreements that reduce property and sales taxes. Agreements for a reduction of taxable property values on incremental values call for a reduction of 50% for 10 years. The agreements for sales tax provide rebates of 50% for 10 years. Each agreement requires a developer commitment of $250 thousand to $12 million in improvements and minimum employment requirements. For fiscal year 2018, the City rebated property taxes of $234,141 and sales taxes of $447,395.

**Closure and Postclosure Care Cost**

The City closed its landfill during the year ended September 30, 1994, and began transferring its solid waste to a privately operated landfill. The City has met certain deadline dates of the Environmental Protection Agency's Subtitle D landfill closure requirements and, as such, the City is exempt from any postclosure care and/or monitoring. Therefore, the City has not recorded any liability for postclosure care or monitoring. All closure costs are expensed as incurred. There were no landfill related expenses during the year ended September 30, 2018.

**Prior Period Adjustment – Change in Accounting Principles**

During fiscal year 2018, the City adopted GASB Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*. With GASB 75, the City must assume its total OPEB liability in connection with the TMRS SDBF and Retiree Health Insurance Plan. Adoption of GASB 75 required a prior period adjustment to report the effect of the standard retroactively. As such, beginning net position was restated by ($436,011) and $180,536 in the governmental and business-type activities, respectively.

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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 HUNTSVILLE, TEXAS**
**GENERAL OBLIGATION BONDS**
**SERIES 2019**
**IN THE AGGREGATE PRINCIPAL AMOUNT OF $19,890,000**

**AS BOND COUNSEL FOR THE CITY OF HUNTSVILLE, TEXAS** (the "City") in connection with the issuance of the bonds described above (the "Bonds"), we have examined 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 August 6, 2019 authorizing the issuance of the Bonds (the "Ordinance").

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

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been duly authorized, issued and delivered in accordance with law; that the Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and the principal of the Bonds have been levied and pledged for such purpose, within the limits prescribed by law, on taxable property within the City.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is 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 or corporate 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, 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 Bonds.

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