

OFFICIAL STATEMENT
August 12, 2014

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

The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

\$8,500,000

CITY OF BELLMEAD, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014

Dated Date: August 1, 2014

Due: March 1, as shown on page ii

The \$8,500,000 City of Bellmead, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 (the "Certificates") are being issued pursuant to the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City of Bellmead, Texas (the "City" or "Issuer") on August 12, 2014, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer (all such terms as defined in the Ordinance). In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance) without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Certificates will accrue from August 1, 2014 (the "Dated Date") as shown above and will be payable on March 1 and September 1 of each year, commencing March 1, 2015, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA dba Bank of Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing, acquiring, purchasing, renovating, enlarging and improving the City's utility system to include a new sewer interceptor and a new water well; (2) constructing street improvements (including utilities repair, replacement, and relocation), curb, gutters, and sidewalk improvements including utilities repair, replacement and relocation) and drainage incidental thereto; (3) constructing, acquiring, purchasing and equipping the City's new Municipal Court Building; (4) constructing, improving, acquiring, purchasing, renovating, and enlarging various public safety facilities, including a fire station rehabilitation and a new parking lot for the Police Department; (5) the purchase of materials, supplies, equipment, public safety vehicles and equipment, communication vehicles and equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (6) the payment of professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about September 3, 2014.

\$8,500,000
CITY OF BELLMEAD, TEXAS
(A political subdivision of the State of Texas located in McLennan County, Texas)

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014

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

<u>Stated</u> <u>Maturity</u> <u>March 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u> <u>(%)</u>	<u>Initial</u> <u>Yield</u> <u>(%)</u>	<u>CUSIP</u> <u>Suffix^(a)</u>
2015	\$140,000	2.500	0.450	EB 0
2016	180,000	2.500	0.550	EC 8
2017	180,000	2.000	0.700	ED 6
2018	410,000	2.000	1.050	EE 4
2019	385,000	2.000	1.200	EF 1
2020	395,000	2.000	1.600	EG 9
2021	405,000	2.250	1.900	EH 7
2022	415,000	2.250	2.000	EJ 3
2023	425,000	2.375	2.250	EK 0
2024	435,000	2.500	2.400	EL 8
2025	440,000	2.750	2.500 ^(b)	EM 6
2026	460,000	2.750	2.600 ^(b)	EN 4
2027	470,000	3.000	2.700 ^(b)	EP 9
2028	485,000	3.000	2.800 ^(b)	EQ 7
2029	500,000	3.125	3.000 ^(b)	ER 5
2030	520,000	3.250	3.100 ^(b)	ES 3
2031	530,000	3.500	3.300 ^(b)	ET 1
2032	555,000	3.500	3.400 ^(b)	EU 8
2033	575,000	3.750	3.500 ^(b)	EV 6
2034	595,000	3.750	3.600 ^(b)	EW 4

(Interest to accrue from the Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after March 1, 2025, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on March 1, 2024, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor or the Purchaser is responsible for the selection or the correctness of the CUSIP numbers set forth herein.

^(b) Yield calculated based on the assumption the denoted Certificates will be called on March 1, 2014, their first date of optional redemption, at the price of par plus accrued interest to said redemption date.

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

ELECTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>On Council Since May</u>	<u>Term Expires May</u>	<u>Occupation</u>
Doss Youngblood	Mayor	2013	2015	Retired
Gary Moore	Mayor Pro Tem	2012	2016	Appliance Delivery Service
Carlos Luna	Council Member	2011	2015	Customer Sales - Verizon
Mathew Jordon	Council Member	2014	2016	Retired
U.F. Roberts	Council Member	2009	2016	Retired
Kevin Wilson	Council Member	2008	2015	U.S. Postal Service Supervisor

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Years With the City</u>	<u>Years of Municipal Experience</u>
Everett "Bo" Thomas	City Manager	2 years	27 years
Victor Salas	Chief Financial Officer	2 years	27 years
Cynthia Ward	City Clerk	5 years	5 years
Charles Buenger	City Attorney	0.5 years	39 years
Lydia Alvarado	Police Chief	3 years	21 years
Bill Hlavenka	Fire Chief	22 years	22 years

CONSULTANTS AND ADVISORS

Bond Counsel.....Fulbright & Jaworski LLP, a member of Norton Rose Fulbright
San Antonio, Texas

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

Financial Advisor Southwest Securities, Inc.
San Antonio, Texas

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Bellmead, Texas (the "City" or "Issuer") is located three miles to the northeast of Waco on U.S. Highway 84. The 2010 census population was 9,901, increasing 7.46% since 2000. The current population estimate is 10,092. The City operates under a Mayor/City Council form of government pursuant to the laws of the State of Texas and the City's Home Rule Charter. (See "APPENDIX B - General Information Regarding the City of Bellmead and McLennan County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City, on August 12, 2014 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, dba Bank of Texas.
Security	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer (all such terms as defined in the Ordinance). In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance) without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
Redemption Provisions of the Certificates	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after March 1, 2025, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2024, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS", including the alternative tax on corporations. (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)
Use of Certificate Proceeds	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing, acquiring, purchasing, renovating, enlarging and improving the City's utility system to include a new sewer interceptor and a new water well; (2) constructing street improvements (including utilities repair, replacement, and relocation), curb, gutters, and sidewalk improvements including utilities repair, replacement and relocation) and drainage incidental thereto; (3) constructing, acquiring, purchasing and equipping the City's new Municipal Court Building; (4) constructing, improving, acquiring, purchasing, renovating, and enlarging various public safety facilities, including a fire station rehabilitation and a new parking lot for the Police Department; (5) the purchase of materials, supplies, equipment, public safety vehicles and equipment, communication vehicles and equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (6) the payment of professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

Rating	Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") has assigned a rating of "AA-" to the Certificates. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
Payment Record	The Issuer has never defaulted on the payment of its bonded indebtedness.
Future Bond Issues	The City does not anticipate the issuance of any additional ad valorem tax debt within the next twelve months, except potentially refunding bonds for debt service savings.
Delivery	When issued, anticipated on or about September 3, 2014.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, Bond Counsel.

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OFFICIAL STATEMENT

relating to

\$8,500,000

CITY OF BELLMEAD, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Bellmead, Texas (the "City" or the "Issuer") of its \$8,500,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 (the "Certificates") identified on the cover page.

The Issuer is a political subdivision of the State of Texas and a municipal corporation organized and existing under the Constitution and laws of the State of Texas and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained upon request from the Issuer or its Financial Advisor, Southwest Securities, Inc., 4040 Broadway, Suite 220, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

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

THE CERTIFICATES

General Description of the Certificates

The Certificates will be dated August 1, 2014 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page ii of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on March 1 and September 1 of each year, commencing March 1, 2015, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA dba Bank of Texas, Austin, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

Authority for Issuance

The Certificates are being issued pursuant to the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") on August 12, 2014, and the City's Home Rule Charter.

Security for Payment

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

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

Redemption Provisions of the Certificates

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after March 1, 2025, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on March 1, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

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

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

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

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

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing, acquiring, purchasing, renovating, enlarging and improving the City's utility system to include a new sewer interceptor and a new water well; (2) constructing street improvements (including utilities repair, replacement, and relocation), curb, gutters, and sidewalk improvements (including utilities repair, replacement and relocation) and drainage incidental thereto; (3) constructing, acquiring, purchasing and equipping the City's new Municipal Court Building; (4) constructing, improving, acquiring,

purchasing, renovating, and enlarging various public safety facilities, including a fire station rehabilitation and a new parking lot for the Police Department; (5) the purchase of material, supplies, equipment, public safety vehicles and equipment, communication vehicles and equipment, machinery, landscaping, land, and right-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (6) the payment of professional services relating to the design, construction, project management, and financing of the aforementioned projects.

Sources and Uses

Sources	
Par Amount of the Certificates	\$8,500,000.00
Accrued Interest on the Certificates	21,563.89
Premium	<u>148,975.00</u>
Total Sources of Funds	<u>\$8,670,538.89</u>

Uses	
General Fund Project Deposit	\$4,000,000.00
Utility Fund Project Deposit	4,500,000.00
Purchaser's Discount	60,579.20
Accrued Interest	21,563.89
Costs of Issuance	85,000.00
Rounding Amount	<u>3,395.80</u>
Total Uses	<u>\$8,670,538.89</u>

Payment Record

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

Amendments

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

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), certified, in the case of a net defeasance, by an independent accounting firm of national reputation, to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates; provided, however, that no such certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Certificates. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City, moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State

law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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

Default and Remedies

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. 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 Certificates or the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principals of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

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

Record Date

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

Special Record Date for Interest Payment

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

Future Registration

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

Limitation on Transfer of Certificates

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

Replacement Certificates

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE SYSTEM

Water System

Presently, the City of Bellmead obtains its water from five (5) deep artesian wells. The wells draw water from the Trinity Sands aquifer. The capacity of these wells range from 430 to 700 gallons per minutes ("GPM"). The total pumping capacity, as of June 20, 2014, is 3.83 million gallons daily ("MGD"). The City of Bellmead currently possesses 1,477 acre feet of ground water rights annually through the Southern Trinity Groundwater Conservation District. The City of Bellmead, through an inter-local agreement with the City of Waco, has a reserve water connection with the City of Waco's water system as a contingency to purchase water in the event of emergency or mechanical failures with the City of Bellmead's water system.

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

The water is distributed and metered throughout the system through approximately 315,000 feet of pipe. The sizes of pipes used throughout the system range from ¾" to 12" in diameter. Meter sizes range from ¾" to 6". As of June 20, 2014 the City of Bellmead had 3,418 service connections.

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

Wastewater System

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

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

Residential wastewater rates are \$9.50 for the first 1,000 gallons and \$1.40 for each additional 1,000 gallons up to a maximum of \$21.00. Commercial wastewater rates are the same as residential rates except that there is no maximum on the amount charged.

INVESTMENT POLICIES

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

Legal Investment

Under Texas law, the Issuer is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for System deposits, and in addition (b) the System is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network ("CDARS®") and as further provided by Texas law, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) and require the security being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (8) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, 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, (9) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (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, (10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (11) no-load mutual fund registered with the United States Securities and Exchange Commission that: have an average weighted maturity of less than two years; invest exclusively in obligations described in the preceding clauses and clause (13), and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent, and (13) bonds issued, assumed or guaranteed by the State of Israel. Texas law also permits the Issuer to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

Entities such as the Issuer may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized including accrued income, 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 (5) and clause (13) above, (b) pledged 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 (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated by such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The Issuer may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pool are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The Issuer is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under Texas law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for Issuer funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, and the methods to monitor the market price of investments acquired with public funds and the 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. All Issuer 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) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under Texas law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an 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 said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds

and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer.

Current Investments

As of May 31, 2014 (unaudited), the City held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Depository Bank Accounts	\$ 5,385,570.54	44.41%
Certificates of Deposit	6,557,437.40	54.07%
Investment Pool Accounts	<u>183,884.07</u>	<u>1.52%</u>
Total	<u>\$12,126,892.01</u>	<u>100.00%</u>

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

EMPLOYEE BENEFIT PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The City employees also participate in the U.S. Social Security program. TMRS issues a publicly available comprehensive annual financial report, which may be obtained from the TMRS website a www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members can retire at ages 60 and above with 5 or more years of service or with 25 or more years of service regardless of age. A member is vested after 5 years.

The contribution rate for employee members is 6.0%, and the City's matching ratio is currently two to one, both as adopted by the governing body of the City. The City's contributions for Fiscal Year 2013 were based on an annual covered payroll of \$2,780,627. The Annual Required Contribution (ARC) was \$241,743 and the Annual Pension Cost was \$241,743. The Actual Contributions Made for Fiscal Year 2013 were \$507,723, resulting in a Net Pension Obligation at the end of Fiscal Year 2013 of \$0.

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets	\$9,412,845
Actuarial Accrued Liability	\$9,736,082
Percentage funded	96.7%
Unfunded Actuarial Accrued Liability	\$ 323,237
Annual covered Payroll	\$2,780,627
Unfunded Actuarial Accrued Liability as a Percentage Of Covered Payroll	11.6%

For more detailed information concerning the City's retirement plan for Fiscal Year 2013, see APPENDIX D Excerpts from the City of Bellmead Audited Financial Statements for the Fiscal Year Ended September 30, 2013 - pages 34-36.

Other Post-Employment Benefits

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500. For Fiscal Year 2013 the Annual Required contribution Rate was 0.05% and the Actual Contribution Rate Made was 0.05%, or 100% of the required rate.

For more detailed information concerning the City's retirement plan for Fiscal Year 2013, see APPENDIX D Excerpts from the City of Bellmead Audited Financial Statements for the Fiscal Year Ended September 30, 2013 - pages 36-37.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the Issuer

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

At an election held on September 13, 2003, the voters of the State of Texas approved a constitutional amendment authorizing counties, cities, towns or junior college districts to establish an ad valorem "tax freeze" on residence homesteads of the disabled and persons sixty-five years of age or older. The surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. This "tax freeze" can be implemented by official action of a governing body, or pursuant to an election called by the governing body upon receipt of a petition signed by 5% of registered voters of the municipality.

Valuation of Property for Taxation

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

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

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

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. The Issuer, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the

City or an estimate of any new property or improvements within the City. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the City, it cannot be used for establishing a tax rate within the City until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemptions

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

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

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. The surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died, and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse.

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

A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Following the approval by the voters at a November 5, 2013 statewide election, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization.

Also approved by the November 5, 2013, election was a constitutional amendment providing that the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or a part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Freeport Goods and Goods-In-Transit Exemption

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal.

In addition, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires that the governmental entities take affirmative action prior to December 31, 2011 to continue its taxation of goods-in-transit in the 2012 tax year and beyond.

Tax Investment Financing/Tax Abatement/Economic Development Program

Tax Increment Reinvestment (Financing) Zones: The City, by action of the City Council, may create one or more tax increment reinvestment zones ("TIRZs" or "TIFs") within the City, and in doing so, other overlapping taxing entities may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for public improvements or projects within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the

difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value of taxable real property in the TIRZ is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion (as determined by the City) of the taxes levied by the City against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of the City.

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

Economic Development Programs of Grants and Loans: The City is authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

Issuer and Taxpayer Remedies

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

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

The Financial Institutions Act of 1989

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

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

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

Levy and Collection of Taxes

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

Issuer's Rights in the Event of Tax Delinquencies

Taxes levied by the Issuer are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each

local taxing unit, including the Issuer, having power to tax the property. The Issuer's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the Issuer is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

CITY APPLICATION OF THE PROPERTY TAX CODE

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

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

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

The City does not tax non-business personal property.

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

McLennan County does not permit split payments or discounts.

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

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

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

The City has no abatement agreements.

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

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

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

Optional Sales Tax

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

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

At an election held on November 6, 2007, registered voters of the City voted to reduce the one-half percent (½%) additional sales tax for economic development to one-quarter percent (¼%) and approved an additional one-quarter percent (¼%) additional sales tax for street maintenance and improvements. Levy of these additional sales taxes began in July 1, 2010.

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

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

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

TAX RATE LIMITATIONS

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

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

Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the Issuer, or as soon thereafter as practicable, the City Council must adopt a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

The Tax Code

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

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

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

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

TAX MATTERS

Tax Exemption

The delivery of the Certificates is subject to an opinion of Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, Bond Counsel to the City ("Bond Counsel"), to the effect that interest on the Certificates for federal income tax purposes under existing statutes, regulations, published rulings and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the "Code"), of the owners thereof pursuant to section 103 of the Code and (2) will not be included in computing

the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statute, regulations, rulings and court decisions on which such opinion will be based are subject to change. A form of Bond Counsel's opinion appears in APPENDIX C attached hereto.

Interest on all tax exempt obligations, including the Certificates, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust (REIT), a financial asset securitization investment trust (FASIT), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

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

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to registered owners of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions (see discussion under the caption "Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Certificates

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

However, such accrued interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see discussion under the caption "Qualified Tax-Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

Tax Accounting Treatment of Premium Certificates

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

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

Qualified Tax-Exempt Obligations

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

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

CONTINUING DISCLOSURE OF INFORMATION

The City is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule") pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the City who are not an "obligated person" (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Certificates) in an aggregate principal amount exceeding \$10,000,000. This exemption allows the Issuer to not file annual updates to all financial and operating data that is included in this Official Statement.

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

Annual Reports

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

The City will file certain updated financial information and operating data with the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in APPENDIX D to this Official Statement. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2014.

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

Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change with the MSRB through EMMA.

Notices of Certain Events

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

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

Availability of Information

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to Rule 15c2-12 which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under Rule 15c2-12 after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

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

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

Compliance with Prior Undertakings

The City has not previously made a continuing disclosure agreement in accordance with SEC Rule 15c2-12.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

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

manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

Rating

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") has assigned a rating of "AA-" to the Certificates. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Authenticity of Financial Information

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

Financial Advisor

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

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of Raymond James & Associates, Inc. (the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page ii of this Official Statement at a price of par, plus an original reoffering premium of \$148,975.00, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The Purchaser's compensation is \$60,579.20. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2013, the date of the last financial statements of the City appearing in the Official Statement.

Concluding Statement

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

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

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

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

CITY OF BELLMEAD, TEXAS

/s/ Doss Youngblood
Mayor
City of Bellmead, Texas

ATTEST:

/s/ Cynthia Ward
City Clerk
City of Bellmead, Texas

APPENDIX A

FINANCIAL INFORMATION RELATING TO THE CITY OF BELLMEAD, TEXAS

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

FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2013 Actual Market Value of Taxable Property (100% of Actual)		\$ 431,981,516
Less Exemptions:		
Local, Optional Over-65 and/or Disabled Homestead Exemptions	\$ 4,877,816	
Disabled and Deceased Veterans' Exemptions	4,674,784	
Productivity Value Loss	2,024,650	
Freeport Exemption	-	
10% Cap Loss	6,678,105	
Pollution Control	48,342	
Charitable / Other	340,140	
Partially Exempt Property	62,688	
Totally Exempt Property	57,136,110	
		<u>75,842,635</u>
2013 Net Taxable Assessed Valuation ^(a)		<u>\$ 356,138,881</u> ^(b)

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

^(b) The City received a Certified 2014 Net Taxable Assessed Valuation of \$365,397,502, which includes \$41,440 under ARB Review. Source: McLennan County Appraisal District

GENERAL OBLIGATION BONDED DEBT

TABLE 2

General Obligation Debt Principal Outstanding: (As of August 1, 2014)		
General Obligation Refunding Bonds, Series 2012		\$ 510,000
Tax Notes, Series 2012		<u>140,000</u>
		\$ 650,000
Current Issues General Obligation Debt Principal		
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 (the "Certificates")		<u>8,500,000</u>
Total Gross General Obligation Debt Principal Outstanding (Following the Issuance of the Certificates)		<u>\$ 9,800,000</u>
Less: Self-Supporting General Obligation Debt Principal:		
General Obligation Refunding Bonds, Series 2012 (approx. 64.32% UF)		\$ 510,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014 (the "Certificates") (approx.53.47% UF)		<u>4,500,000</u>
Total Self-Supporting General Obligation Debt Principal Outstanding:		5,010,000
Total Net General Obligation Debt Principal Outstanding (Following the Issuance of the Certificates)		<u>\$ 4,790,000</u>
General Obligation Interest and Sinking Fund Balance as of May 31, 2014 (Unaudited)		\$ 149,248
Ratio of Gross General Obligation Debt Principal to 2013 Net Taxable Assessed Valuation		2.75%
Ratio of Net General Obligation Debt Principal to 2013 Net Taxable Assessed Valuation		1.34%
2013 Net Taxable Assessed Valuation		\$ 356,138,881
Population: 1990 - 8,336; 2000 - 9,214; 2010 - 9,901; Current (Estimate) -		10,092
Per Capita 2013 Net Taxable Assessed Valuation -		\$ 35,289
Per Capita Gross General Obligation Debt Principal -		\$ 971
Per Capita Net General Obligation Debt Principal -		\$ 475

OTHER OBLIGATIONS

TABLE 3

The City has no other debt obligations outstanding.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

Fiscal Year Sept 30	Currently Outstanding Debt Service	The Certificates			Combined Total Debt Service	Less Self-Supporting Debt Service	Net Total Debt Service
		Principal	Interest ^(a)	Total			
2014	\$ 490,886.25	\$ -	\$ -	\$ -	\$ 490,886.25	\$ 190,740.00	\$ 300,146.25
2015	219,755.50	140,000.00	261,059.90	401,059.90	620,815.40	313,147.04	307,668.36
2016	220,951.75	180,000.00	236,843.76	416,843.76	637,795.51	333,966.50	303,829.01
2017	227,013.75	180,000.00	232,793.76	412,793.76	639,807.51	335,203.75	304,603.76
2018	-	410,000.00	226,893.76	636,893.76	636,893.76	336,237.50	300,656.26
2019	-	385,000.00	218,943.76	603,943.76	603,943.76	336,987.50	266,956.26
2020	-	395,000.00	211,143.76	606,143.76	606,143.76	337,637.50	268,506.26
2021	-	405,000.00	202,637.51	607,637.51	607,637.51	337,906.25	269,731.26
2022	-	415,000.00	193,412.51	608,412.51	608,412.51	337,787.50	270,625.01
2023	-	425,000.00	183,696.88	608,696.88	608,696.88	342,350.00	266,346.88
2024	-	435,000.00	173,212.50	608,212.50	608,212.50	341,437.50	266,775.00
2025	-	440,000.00	161,725.00	601,725.00	601,725.00	335,006.25	266,718.75
2026	-	460,000.00	149,350.00	609,350.00	609,350.00	338,131.25	271,218.75
2027	-	470,000.00	135,975.00	605,975.00	605,975.00	335,725.00	270,250.00
2028	-	485,000.00	121,650.00	606,650.00	606,650.00	337,775.00	268,875.00
2029	-	500,000.00	106,562.50	606,562.50	606,562.50	339,350.00	267,212.50
2030	-	520,000.00	90,300.00	610,300.00	610,300.00	340,262.50	270,037.50
2031	-	530,000.00	72,575.00	602,575.00	602,575.00	335,387.50	267,187.50
2032	-	555,000.00	53,587.50	608,587.50	608,587.50	339,800.00	268,787.50
2033	-	575,000.00	33,093.75	608,093.75	608,093.75	338,375.00	269,718.75
2034	-	595,000.00	11,156.25	606,156.25	606,156.25	336,187.50	269,968.75
	<u>\$ 1,158,607.25</u>	<u>\$ 8,500,000.00</u>	<u>\$ 3,076,613.10</u>	<u>\$ 11,576,613.10</u>	<u>\$ 12,735,220.35</u>	<u>\$ 6,919,401.04</u>	<u>\$ 5,545,850.56</u>

^(a) Interest calculated at an average interest rate of 3.118136%.

TAX ADEQUACY (Includes Self-Supporting Debt)

TABLE 5A

2013 Net Taxable Assessed Valuation	\$ 356,138,881
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-17)	\$ 639,808
Indicated Maximum Interest and Sinking Fund Tax Rate at 96% Collections	\$ 0.187137

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

TAX ADEQUACY Excludes Self-Supporting Debt)

TABLE 5B

2013 Net Taxable Assessed Valuation	\$ 356,138,881
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-15)	\$ 307,668
Indicated Maximum Interest and Sinking Fund Tax Rate at 96% Collections	\$ 0.089990

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

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2004-2013

TABLE 6

Year	Net Taxable Assessed Valuation	Change from Previous Year	
		Amount (\$)	Percent
2004-05	\$ 238,236,847	13,922,107	6.21%
2005-06	247,774,534	9,537,687	4.00%
2006-07	276,143,725	28,369,191	11.45%
2007-08	275,677,485	(466,240)	(0.17%)
2008-09	291,103,380	15,425,895	5.60%
2009-10	327,880,106	36,776,726	12.63%
2010-11	328,311,013	430,907	0.13%
2011-12	330,975,338	2,664,325	0.81%
2012-13	337,473,605	6,498,267	1.96%
2013-14	356,138,881	18,665,276	5.53%

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

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

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

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2013	\$ 155,626
2013-2014 Interest and Sinking (I&S) Fund Tax Levy of \$0.084422 at 96% Collections Produces ^(a)	<u>288,633</u>
Total Available for Debt Service	\$ 444,259
Less: Net General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-14	<u>300,146</u>
Estimated Surplus at Fiscal Year Ending 9-30-14	<u>\$ 144,113</u> ^(a)

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

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**TABLE 8***(Includes the Certificates)*

Fiscal Year Ending 9/30	Principal Repayment Schedule			Bonds Unpaid at End of Year	Percent of Principal Retired (%)
	Outstanding Obligations ^(a)	The Certificates	Total		
2014	\$ -	\$ -	\$ -	\$ 9,150,000	0.00%
2015	210,000	140,000	350,000	8,800,000	3.83%
2016	215,000	180,000	395,000	8,405,000	8.14%
2017	225,000	180,000	405,000	8,000,000	12.57%
2018	-	410,000	410,000	7,590,000	17.05%
2019	-	385,000	385,000	7,205,000	21.26%
2020	-	395,000	395,000	6,810,000	25.57%
2021	-	405,000	405,000	6,405,000	30.00%
2022	-	415,000	415,000	5,990,000	34.54%
2023	-	425,000	425,000	5,565,000	39.18%
2024	-	435,000	435,000	5,130,000	43.93%
2025	-	440,000	440,000	4,690,000	48.74%
2026	-	460,000	460,000	4,230,000	53.77%
2027	-	470,000	470,000	3,760,000	58.91%
2028	-	485,000	485,000	3,275,000	64.21%
2029	-	500,000	500,000	2,775,000	69.67%
2030	-	520,000	520,000	2,255,000	75.36%
2031	-	530,000	530,000	1,725,000	81.15%
2032	-	555,000	555,000	1,170,000	87.21%
2033	-	575,000	575,000	595,000	93.50%
2034	-	595,000	595,000	-	100.00%
	<u>\$ 650,000</u>	<u>\$ 8,500,000</u>	<u>\$ 9,150,000</u>		

^(a) As of August 1, 2014. Excludes 3-1-14 principal payments.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 9

Category	2013	% of Total	2012	% of Total	2011	% of Total	2010	% of Total	2009	% of Total
Real, Residential, Single-Family	\$ 165,751,193	38.37%	\$ 148,733,342	37.60%	\$ 147,594,543	38.19%	\$ 146,835,840	38.12%	\$ 144,869,160	39.87%
Real, Residential, Multi-Family	9,722,090	2.25%	9,770,187	2.47%	9,572,998	2.48%	9,273,552	2.41%	9,380,075	2.58%
Real, Vacant Lots/Tracts	8,364,545	1.94%	7,226,726	1.83%	7,902,816	2.04%	7,768,304	2.02%	6,759,245	1.86%
Real, Acreage (Land Only)	2,220,360	0.51%	2,785,067	0.70%	3,011,727	0.78%	2,939,348	0.76%	2,716,688	0.75%
Farm & Ranch Improvements	5,513,676	1.28%	4,042,862	1.02%	4,158,411	1.08%	4,239,836	1.10%	4,056,745	1.12%
Real, Commercial	118,302,114	27.39%	113,128,618	28.60%	106,384,446	27.52%	103,936,260	26.98%	104,987,822	28.89%
Real, Industrial	136,800	0.03%	136,727	0.03%	142,645	0.04%	-	0.00%	13,737,640	3.78%
Real & Tangible, Personal Utilities	11,453,340	2.65%	11,079,531	2.80%	11,044,150	2.86%	12,340,331	3.20%	48,637,814	13.38%
Tangible Personal, Business / Commercial	47,996,540	11.11%	47,791,327	12.08%	47,956,154	12.41%	49,298,035	12.80%	858,362	0.24%
Tangible Personal, Industrial	471,950	0.11%	1,304,263	0.33%	1,541,271	0.40%	1,016,740	0.26%	4,885,903	1.34%
Tangible Personal, Mobil Homes	3,733,390	0.86%	4,157,629	1.05%	4,292,986	1.11%	4,447,670	1.15%	475,157	0.13%
Real Property, Inventory (Residential/Special)	783,140	0.18%	727,415	0.18%	486,846	0.13%	520,602	0.14%	22,022,031	6.06%
Totally Exempt Property	57,532,378	13.32%	44,653,363	11.29%	42,419,969	10.98%	42,603,618	11.06%	-	0.00%
Total Market Value	\$ 431,981,516	100.00%	\$ 395,537,057	100.00%	\$ 386,508,962	100.00%	\$ 385,220,136	100.00%	\$ 363,386,642	100.00%
Less Exemptions and Losses:										
Local, Optional Over-65 and/or Disabled Homestead	\$ 4,877,816		\$ 4,754,625		\$ 4,526,152		\$ 4,556,931		\$ 4,406,201	
Disabled and Deceased Veterans' Productivity Value Loss	4,674,784		4,510,240		4,202,419		3,794,048		2,425,043	
Freeport Property	2,024,650		1,974,510		2,099,623		2,071,873		1,887,540	
10% Cap Loss	6,678,105		28,154		120,484		108,616		103,037	
Pollution Control	48,342		48,342		48,342		48,342		48,342	
Charitable / Other	340,140		90,843		92,331		92,341		92,797	
Partially Exempt Property	62,688		650,984		5,940		11,232		4,184	
Totally Exempt Property	57,136,110		44,558,151		42,324,210		42,508,015		21,936,286	
Total Exemptions	\$ 75,842,635		\$ 58,063,452		\$ 55,533,624		\$ 56,909,123		\$ 35,506,536	
Net Taxable Assessed Valuation	\$ 356,138,881		\$ 337,473,605		\$ 330,975,338		\$ 328,311,013		\$ 327,880,106	

(a) The City received a Certified 2014 Net Taxable Assessed Valuation of \$365,397,502, which includes \$41,440 under ARB Review.
 Source: McLennan County Appraisal District
 Note: Assessed Valuations shown here are Certified Valuations and may change during the year due to various supplements and protests. Valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

PRINCIPAL TAXPAYERS 2013-2014

TABLE 10

<u>Name</u>	<u>Type of Business</u>	<u>2013 Net Taxable Assessed Valuation</u>	<u>% of Total 2013 Net Taxable Assessed Valuation</u>
Wal-Mart Real Estate Business Trust	Real Estate	\$ 11,419,220	3.21%
Wal-Mart Stores East LP	Retail Sales	8,380,780	2.35%
Sams Club East Inc.	Retail Sales	7,934,090	2.23%
Home Depot USA Inc.	Retail Home Improvement Sales	7,262,680	2.04%
Prem Sai Inc.	Hotel/Motel	7,168,155	2.01%
Bellmead McLennan NH Ltd.	Nursing Home	6,900,913	1.94%
Butt H. E. Grocery Co.	Retail Grocery Sales	5,926,338	1.66%
Dune SC Sub II LLC	Real Estate Development	4,900,000	1.38%
Home Depot	Retail Home Improvement Sales	4,313,560	1.21%
American Bank NA	Banking Services	4,013,390	1.13%
Total		\$ 68,219,126	19.16%

Based on a 2013 Freeze Adjusted Taxable Assessed Valuation of \$ 356,138,881

^(a) As shown in the table above, the top ten taxpayers in the City account for in excess of 19% of the City's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE CERTIFICATES – Default and Remedies" and "AD VALOREM TAX PROCEDURES – Issuer's Rights in the Event of Tax Delinquencies" in this Official Statement.

Source: Texas Comptroller of Public Accounts

PROPERTY TAX RATES AND COLLECTIONS ^(a)

TABLE 11

<u>Tax Year</u>	<u>Net Taxable Assessed Valuation</u>	<u>Tax Rate</u>	<u>Adjusted Tax Levy</u>	<u>% Collections</u>		<u>Year Ended</u>
				<u>Current</u>	<u>Total</u>	
2004-05	\$ 238,236,847	\$ 0.305100	\$ 725,517	96.25%	99.33%	9-30-05
2005-06	247,774,534	0.296400	769,885	90.85%	93.80%	9-30-06
2006-07	276,143,725	0.278800	768,214	96.19%	99.47%	9-30-07
2007-08	275,677,485	0.267500	778,490	96.54%	100.10%	9-30-08
2008-09	291,103,380	0.253300	809,763	93.69%	96.66%	9-30-09
2009-10	327,880,106	0.247000	806,616	96.02%	98.10%	9-30-10
2010-11	328,311,013	0.265600	867,934	95.86%	97.69%	9-30-11
2011-12	330,975,338	0.274500	903,305	96.65%	99.62%	9-30-12
2012-13	337,473,605	0.298600	1,006,643	97.29%	99.42%	9-30-13
2013-14	356,138,881	0.298608	1,060,378 ^(b)	94.69% ^(b)	96.08% ^(b)	9-30-14

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

^(b) Information is as of May 31, 2014.

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

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

TAX RATE DISTRIBUTION

TABLE 12

	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>	<u>2010-2011</u>	<u>2009-2010</u>	<u>2008-2009</u>
General Fund	\$0.214186	\$0.211100	\$0.211100	\$0.196900	\$0.182100	\$0.188700
I & S Fund	0.084422	0.087508	0.063400	0.068600	0.064900	0.064600
TOTAL	\$0.298608	\$0.298608	\$0.274500	\$0.265500	\$0.247000	\$0.253300

Source: The Issuer

FUND BALANCES

TABLE 13

	As of May 31, 2014
General Operating Fund	\$ 1,921,417
General Obligation Debt Service Fund	149,248
Water and Sewer Fund	5,048,280
Special Revenue Funds (Hotel Occupancy & Court)	1,149,862
Street Improvements Fund (Sales Tax)	1,659,928
Total	\$ 9,928,735

MUNICIPAL SALES TAX

TABLE 14

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

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

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

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

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

Fiscal Year	1.50% Total Collections	1.00% City Collections	City Portion % of Ad Valorem Tax Levy	City Portion (\$) Equivalent of Ad Valorem Tax Rate	0.50% / 0.25% Economic Development Collections	0.25% Streets Collections
2006	\$ 2,698,110	\$ 1,798,740	233.64%	\$0.69	\$ 899,370 ^(a)	\$ -
2007	2,872,858	1,915,238	249.31%	0.70	957,619 ^(a)	-
2008	2,991,705	1,994,470	256.20%	0.69	997,235 ^(a)	-
2009	3,034,576	2,023,051	249.83%	0.63	1,011,525 ^(a)	-
2010	3,074,535	2,049,690	254.11%	0.63	1,024,845 ^(a)	-
2011	3,132,993	2,088,662	240.65%	0.64	522,166 ^(b)	522,166
2012	3,161,020	2,107,347	233.29%	0.64	526,837 ^(b)	526,837
2013	3,278,348	2,185,565	217.11%	0.65	546,391 ^(b)	546,391
2014 ^(c)	1,907,175	1,271,450	119.91%	0.36	317,863 ^(b)	317,863

^(b) Represents 0.50% collections.

^(b) Represents 0.25% collections.

^(c) Fiscal Year 2014 collections are for October 1, 2013 through April 30, 2014 (seven months only).

Sources: Texas Comptroller of Public Accounts Website <http://ecpa.cpa.state.tx.us/allocation/AllocHist>

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

OVERLAPPING DEBT DATA AND INFORMATION

TABLE 15

(As of August 1, 2014)

<u>Taxing Body</u>	<u>Gross Debt</u>		<u>%</u>	<u>Amount</u>	
	<u>Principal</u>	<u>Overlapping</u>		<u>Overlapping</u>	<u>Overlapping</u>
Connally Independent School District	\$ 19,440,500		0.78%	\$ 151,636	
La Vega Independent School District	\$ 42,618,564		46.92%	19,996,630	
McLennan County	\$ 180,750,000		2.88%	5,205,600	
McLennan County Junior College District	76,330,000		2.88%	2,198,304	
Total Gross Overlapping Debt				\$ 27,552,170	
City of Bellmead	9,800,000	(a)	100.00%	9,800,000	(a)
Total Gross Direct and Overlapping Debt Principal				\$ 37,352,170	(a)
Ratio of Direct and Overlapping Debt to 2013 Net Taxable Assessed Valuation				10.49%	(a)
Ratio of Direct and Overlapping Debt to 2013 Actual Market Value				8.65%	(a)
Per Capita Direct and Overlapping Debt				\$3,701	(a)
Note: Figures above show Gross General Obligation Debt Principal for the City of Bellmead, Texas					
The Issuer's Net General Obligation Debt Principal				\$ 4,790,000	(a)
Calculations on Net General Obligation Debt Principal would change the above figures as follows:					
Total Net Direct and Overlapping Debt Principal				\$ 32,342,170	(a)
Ratio of Net Direct and Overlapping Debt Principal to 2013 Net Taxable Assessed Valuation				9.08%	(a)
Ratio of Net Direct and Overlapping Debt Principal to 2013 Actual Market Value				7.49%	(a)
Per Capita Net Direct and Overlapping Debt Principal				\$3,205	(a)
2013 Net Taxable Assessed Valuation				\$ 356,138,881	

(a) Includes the Certificates.

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

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 16

<u>Governmental Entity</u>	<u>2013 Net Taxable</u>		<u>2013</u>
	<u>Assessed Valuation</u>	<u>% of Actual</u>	
Connally Independent School District	\$ 563,601,669	100%	\$1.26570
La Vega Independent School District	643,920,977	100%	1.42000
McLennan County	11,397,796,939	100%	0.53530
McLennan County Junior College District	16,531,869,952	100%	0.15153

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

TABLE 17

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

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

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

TABLE 18

	Fiscal Year Ended September 30				
	2013	2012	2011	2010	2009
REVENUES:					
Property Taxes	\$ 721,099	\$ 704,056	\$ 638,877	\$ 597,596	\$ 594,957
Sales Taxes	2,731,957	2,634,182	2,610,813	2,049,690	2,028,963
Franchise Taxes	492,154	522,844	569,355	550,229	589,469
Hotel Occupancy Taxes	-	-	-	-	334,917
Other Taxes	52,305	43,236	44,197	42,027	-
Licenses and Permits	55,093	34,668	112,098	96,056	38,122
Intergovernmental	89,713	93,191	-	273,915	5,796
Rent	-	-	-	46,500	-
Parks and Recreation Fees	-	-	-	-	39,855
Fines and Fees	371,414	269,182	307,005	364,337	339,502
Investment Earnings	15,658	8,847	12,778	20,107	33,136
Miscellaneous	479,102	196,729	100,108	134,881	151,057
Total Revenues	\$ 5,008,495	\$ 4,506,935	\$ 4,395,231	\$ 4,175,338	\$ 4,155,774
EXPENDITURES:					
General Government	\$ 909,033	\$ 1,379,384	\$ 1,284,233	\$ 1,140,559	\$ 1,168,113
Public Safety	2,818,756	2,536,427	2,142,473	2,732,621	1,901,131
Highways and Streets	616,325	510,897	634,401	605,608	635,515
Economic and Physical Development	1,000	160,014	37,714	-	-
Culture and Recreation	69,733	51,347	48,922	120,985	268,583
Debt Service	-	10,000	-	-	-
Total Expenditures	\$ 4,414,847	\$ 4,648,069	\$ 4,147,743	\$ 4,599,773	\$ 3,973,342
Excess (Deficit) of Revenues					
Over Expenditures	\$ 593,648	\$ (141,134)	\$ 247,488	\$ (424,435)	\$ 182,432
OTHER FINANCING SOURCES (USES):					
Transfers In	\$ -	\$ 30,991	\$ -	\$ 40,000	\$ 110,000
Transfers Out	-	-	-	(15,000)	(551,600)
Proceeds from Debt Issuance	-	230,000	-	-	-
Sale of Property	-	-	-	810,509	-
Total Other Financing Sources (Uses)	\$ -	\$ 260,991	\$ -	\$ 835,509	\$ (441,600)
Net Change in Fund Balance	\$ 593,648	\$ 119,857	\$ 247,488	\$ 411,074	\$ (259,168)
Fund Balance - October 1 (Beginning)	2,690,282	2,493,984	2,246,496 ^(b)	1,497,055 ^(c)	2,780,794
Prior Year Adjustment	-	76,441	-	174,278	-
Fund Balance - September 30 (Ending)	\$ 3,283,930 ^(a)	\$ 2,690,282	\$ 2,493,984	\$ 2,082,407 ^(b)	\$ 2,521,626 ^(c)

^(a) The City estimates its unaudited FY 2014 General Fund Balance will be approximately \$3,383,930.

^(b) Restatement of the fund balance to include the Grant Fund and Street Special Fund and to remove the Court Technology.

^(c) Change in the reporting requirements for Special Revenue Funds, previously reported with the General Funds, resulted in a reduced fund balance for the General Fund.

Source: The Issuer's Audited Annual Financial Reports

CONDENSED WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

TABLE 19

	Fiscal Year Ended September 30				
	2013	2012	2011	2010	2009
Revenues ^(a)	\$ 2,681,105	\$ 2,683,083	\$ 2,602,693	\$ 2,436,697	\$ 2,721,093
Expenses ^(b)	<u>1,528,841</u>	<u>1,339,988</u>	<u>1,479,491</u>	<u>1,566,533</u>	<u>2,411,298</u>
Net Revenue Available for Debt Service	<u>\$ 1,152,264</u>	<u>\$ 1,343,095</u>	<u>\$ 1,123,202</u>	<u>\$ 870,164</u>	<u>\$ 309,795</u>
Annual Debt Service Requirements for Revenue Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Coverage of Revenue Debt Service	N/A	N/A	N/A	N/A	N/A
Annual Debt Service Requirements for General Obligation Debt Service Paid from System Revenues	\$ 193,962	\$ 189,948	\$ 189,948	\$ 234,119	\$ 234,093
Coverage of <u>All Debt</u> Paid From System Revenues	5.94 x	7.07 x	5.91 x	3.72 x	1.32 x
Customer Count:	<u>FY 2014^(c)</u>				
Water	3,418	3,389	3,381	3,372	3,316
Sewer	3,300	3,276	3,267	3,263	3,211

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

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

^(c) Current fiscal year customer count as of May 31, 2014.

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

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

Effective October 1, 2007

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

PRINCIPAL WATER CUSTOMERS 2012-2013**TABLE 21***(As of September 30, 2013)*

<u>Name of Customer</u>	<u>Average Monthly Consumption (Gals.)</u>	<u>Average Monthly Bill</u>
Atrium of Bellmead	2,578,542	\$ 9,034.89
Bordeaux Apartments	715,333	3,653.67
Eaglecrest Apartments	94,416	580.46
Bellmead Carwash	411,500	1,450.25
Delta Inn	347,700	1,224.50
Home Depot	335,916	1,168.72
Cloverleaf Mobile Park	178,525	874.84
Bellmead Kidney Center	297,583	1,055.04
HEB Grocery	280,583	992.04
Holiday Inn	264,250	934.88
Total	<u>5,504,348</u>	<u>\$ 20,969.29</u> ^(a)

^(a) Principal Water Customers represent approximately 14.44% of total annual water sales.**SEWER RATES****TABLE 22***(Based on Monthly Billing)*

Effective October 1, 2006

Schedule A Customers Minimum (First 1,000 Gallons) (single family, multi-family, trailer park, charitable, office buildings)	\$	9.50
Per each additional 1,000 Gallons of Consumption	\$	1.40
Maximum Charge	\$	21.00
Schedule B Customers (small businesses, school)	\$	9.50
Per each additional 1,000 Gallons of Consumption	\$	1.40
Schedule C Customers		
4-inch Sewer Taps	\$	425.00
6-inch Sewer Taps	\$	550.00
Schedule D Customer - Union Pacific Railway Company		Contract

PRINCIPAL SEWER CUSTOMERS 2012-2013**TABLE 23***(As of September 30, 2013)*

<u>Name of Customer</u>	<u>Average Monthly Consumption (Gals.)</u>	<u>Average Monthly Bill</u>
Atrium of Bellmead	2,578,542	\$ 3,618.06
Bordeaux Apartments	715,333	840.47
Eaglecrest Apartments	94,416	106.68
Bellmead Carwash	411,500	584.20
Delta Inn	347,700	493.90
Home Depot	335,916	478.39
Cloverleaf Mobile Park	178,525	228.64
Bellmead Kidney Center	297,583	424.72
HEB Grocery	280,583	400.92
Holiday Inn	264,250	378.05
Total	<u>5,504,348</u>	<u>\$ 7,554.03</u> ^(a)

^(a) Principal Sewer Customers represent approximately 11.27% of total annual sewer charges.

APPENDIX B

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

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

General

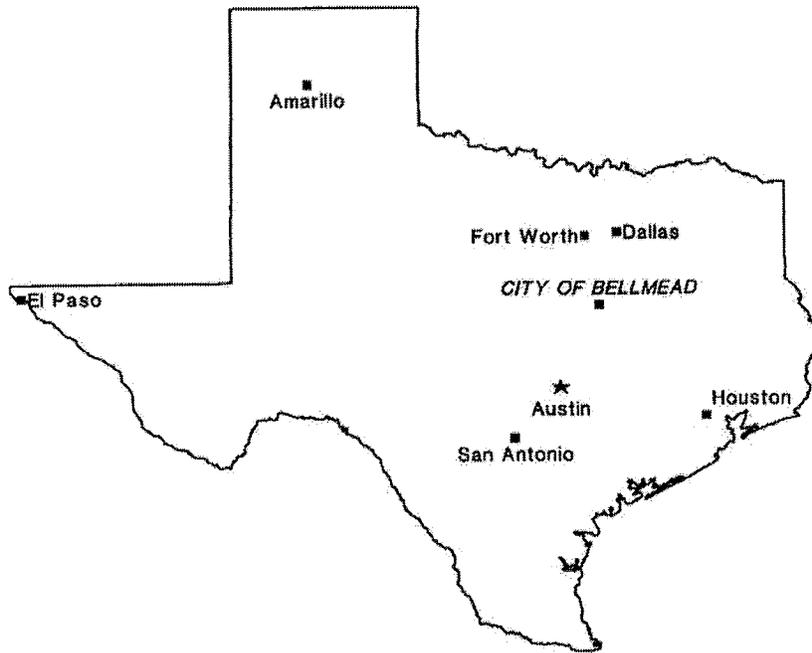
The City of Bellmead is a residential area located three miles to the northeast of Waco on U.S. Highway 84. The 2010 census was 9,901, increasing 7.46% since 2000. The current population estimate is 10,092. Many residents of the City work in Waco.

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

The County is a major center for higher education. Baylor University, the world's largest Southern Baptist University, with an enrollment of over 13,000 is located in the City of Waco. Also located in the County are McLennan Community College and the Texas State Technical College - James Connally Campus.

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

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



Population:

<u>Year</u>	<u>City of Bellmead</u>	<u>McLennan County</u>
2014 Estimate	10,092	242,179
2010 Census	9,901	234,906
2000 Census	9,214	213,517
1990 Census	8,336	189,123

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

Leading Employers Bellmead and the Surrounding Area:

<u>Employer</u>	<u>Type of Business</u>	<u>2014 Number of Employees</u>
Baylor University	Higher Education	2,360
L-3 Integrated Systems	Aircraft maintenance / Modification	1,619
HEB Grocery	Grocery	1,350
Wal-Mart	Retail Sales	1,290
Sanderson Farms	Poultry Factory	1,170
Texas State Technical College	Technical Higher Education	684
La Vega Independent School District	Public School Education	381
Clayton Homes	Manufactured Homes	225
Sam's Club	Retail Sales	140

Source: Information from the Issuer

Education

The City is served by the La Vega Independent School District (the "District"), which is fully accredited by the Texas Education Agency. The high school is also accredited by the Southern Association of Colleges and Schools. The District is comprised of two elementary schools for grades kindergarten through third, one intermediate school for grades fourth through sixth, and one high school for grades ninth through twelfth. All campuses offer enriched curricula with special programs for gifted/talented students as well as students achieving below grade level and are equipped with computers and full cafeteria service. The District's enrollment for the 2013-2014 school year was 2,875 (as of May 31, 2014), and the District employs 408 persons, 191 of which are classroom teachers.

Source: Information from the Issuer

Labor Force Statistics

	<u>McLennan County</u>		<u>Waco MSA</u>		<u>State of Texas</u>	
	<u>May 2014</u>	<u>May 2013</u>	<u>May 2014</u>	<u>May 2013</u>	<u>May 2014</u>	<u>May 2013</u>
Civilian Labor Force	115,053	115,082	115,100	115,100	12,969,300	12,821,100
Total Employed	109,253	108,072	109,300	108,100	12,313,700	12,015,900
Total Unemployed	5,800	7,010	5,800	7,000	655,600	805,200
% Unemployed	5.0%	6.0%	5.0%	6.1%	5.1%	6.3%
% Unemployed (United States)	6.1%	7.3%	6.1%	7.3%	6.1%	7.3%

Source: Texas Workforce Commission, Labor Market Information Department.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL



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nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the “City of Bellmead, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014” (the *Certificates*), dated August 1, 2014 in the aggregate principal amount of \$8,500,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Bellmead, Texas (the *Issuer*). The Certificates are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of March 1 in each of the years 2015 through 2034, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

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

Fulbright & Jaworski LLP is a limited liability partnership registered under the laws of Texas.

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Fulbright & Jaworski LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP, Norton Rose Fulbright South Africa (incorporated as Deneys Reitz, Inc.), each of which is a separate legal entity, are members of Norton Rose Fulbright Verein, a Swiss Verein. Details of each entity, with certain regulatory information, are at nortonrosefulbright.com. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients.

Legal Opinion of Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, in connection with the authorization and issuance of “CITY OF BELLMEAD, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014”

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

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

WE CALL YOUR ATTENTION TO THE FACT THAT, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Certificates, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit, or a real estate investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

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

Legal Opinion of Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, in connection with the authorization and issuance of “CITY OF BELLMEAD, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014”

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

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

Fulbright & Jaworski LLP

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APPENDIX D

**EXCERPTS FROM THE CITY OF BELLMEAD AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013**

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



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Bellmead, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Bellmead's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bellmead, as of September 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–10 and 38–43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Patricia Brown & Hill, L.L.P.

April 23, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Bellmead, Texas (the "City") offers the following overview and analysis of the City's financial statements and financial activities for the fiscal year ended September 30, 2013. It should be read in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded liabilities at the close of the most recent fiscal year by \$26,923,237 (net position). Of this amount, \$8,327,981 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with fund designation and fiscal policies. In the prior year, the City's assets exceeded its liabilities by \$25,469,118. Of this amount, \$7,219,107 (unrestricted net position) could have been used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's net investment in capital assets decreased by \$152,043 from the prior year.
- As of September 30, 2013, the City of Bellmead's governmental funds reported ending fund balances of \$7,632,482. Of this amount, \$1,869,707 is unrestricted fund balance in the General Fund available for use within the City's fund designation and fiscal policies. In the prior year, the City's governmental funds reported ending fund balances of \$6,506,112. Of this amount, \$1,705,700 was unrestricted fund balance in the General Fund available for use within the City's fiscal policies.
- As of September 30, 2013, the restricted net position of the governmental activities is \$4,483,968 of which \$3,166,471 is restricted for economic development and \$995,230 was restricted for culture and recreation. In the prior year, restricted net position of the governmental activities was \$3,906,347 of which \$2,677,724 was restricted for economic development and \$948,458 was restricted for culture and recreation.
- As of September 30, 2013, the City of Bellmead's Enterprise Fund reported ending fund net position of \$7,892,677. Of this amount, \$5,213,955 is unrestricted fund net position available for use within the City's fund designation and fiscal policies. In the prior year, the City's Enterprise Fund reported ending fund net position of \$7,450,992. Of this amount, \$4,653,092 was unrestricted fund net position available for use within the City's fiscal policies.
- The total cost of the City's programs represents the inclusion of the City Council's funding priorities including: employee compensation and insurance, maintenance of the water system, and equipment for maintenance and operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by citations, sales tax, street tax, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, economic development, culture and recreation, and highways and streets. The business-type activities of the City include a water distribution operation and sewer services.

The government-wide financial statements can be found on pages 11 and 12 of this report.

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

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

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

The basic governmental fund financial statements can be found on pages 13 through 17 of this report.

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

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 18 through 20 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 – 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. The City's combined net position was \$26,923,237 at September 30, 2013, which is a 5.71% increase from September 30, 2012. (See Table A-1) The largest portion of the City's net position, \$14,111,288, reflects its investment in capital assets (e.g., land, buildings and improvements, equipment, and water and sewer facilities), less any related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

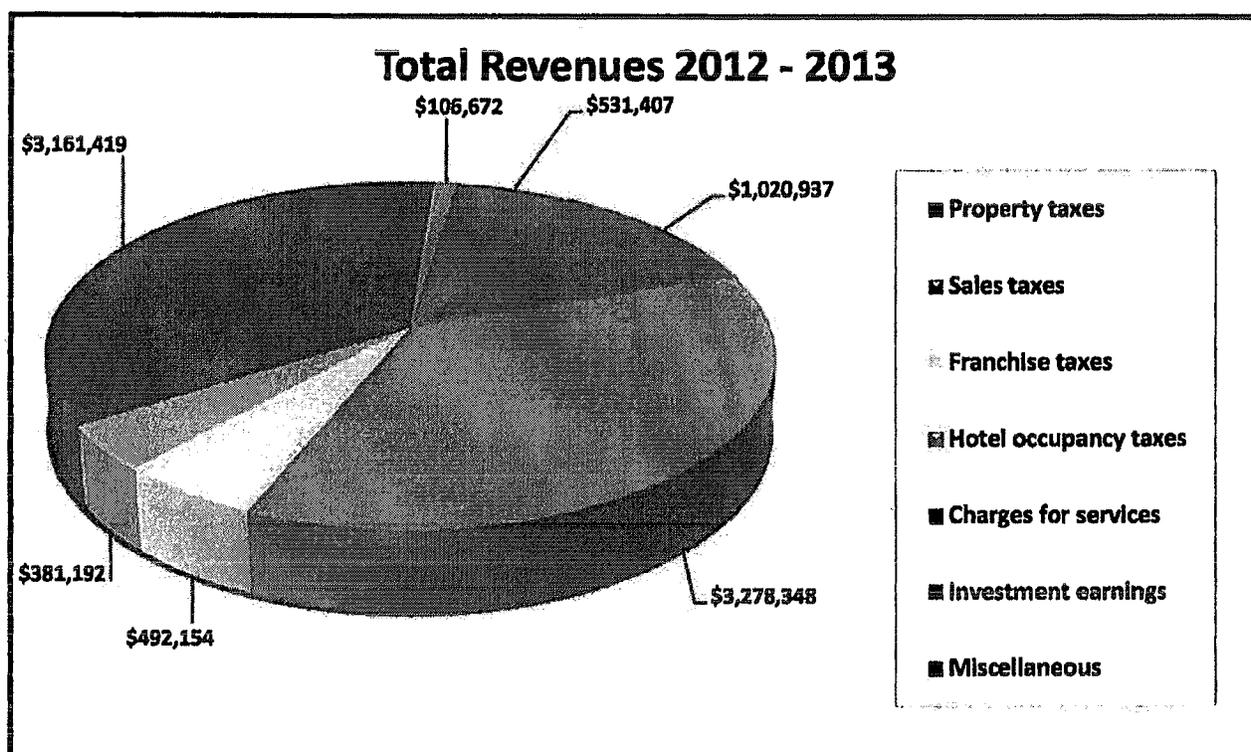
Table A-1
City of Bellmead, Texas' Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 9,270,202	\$ 8,436,413	\$ 5,756,063	\$ 5,310,338	\$ 15,026,265	\$ 13,746,751
Capital assets	<u>11,877,168</u>	<u>12,249,131</u>	<u>3,348,303</u>	<u>3,587,567</u>	<u>15,225,471</u>	<u>15,836,698</u>
Total assets	<u>\$ 21,147,370</u>	<u>\$ 20,685,544</u>	<u>\$ 9,104,366</u>	<u>\$ 8,897,905</u>	<u>\$ 30,251,736</u>	<u>\$ 29,583,449</u>
Long-term liabilities	\$ 1,330,029	\$ 1,766,902	\$ 522,799	\$ 707,212	\$ 1,852,828	\$ 2,474,114
Other liabilities	<u>786,781</u>	<u>900,516</u>	<u>688,890</u>	<u>739,701</u>	<u>1,475,671</u>	<u>1,640,217</u>
Total liabilities	<u>2,116,810</u>	<u>2,667,418</u>	<u>1,211,689</u>	<u>1,446,913</u>	<u>3,328,499</u>	<u>4,114,331</u>
Net position:						
Net investment in capital assets	11,452,985	11,545,764	2,658,303	2,717,567	14,111,288	14,263,331
Restricted	4,463,549	3,906,347	20,419	80,333	4,483,968	3,986,680
Unrestricted	<u>3,114,026</u>	<u>2,566,015</u>	<u>5,213,955</u>	<u>4,653,092</u>	<u>8,327,981</u>	<u>7,219,107</u>
Total net position	<u>\$ 19,030,560</u>	<u>\$ 18,018,126</u>	<u>\$ 7,892,677</u>	<u>\$ 7,450,992</u>	<u>\$ 26,923,237</u>	<u>\$ 25,469,118</u>

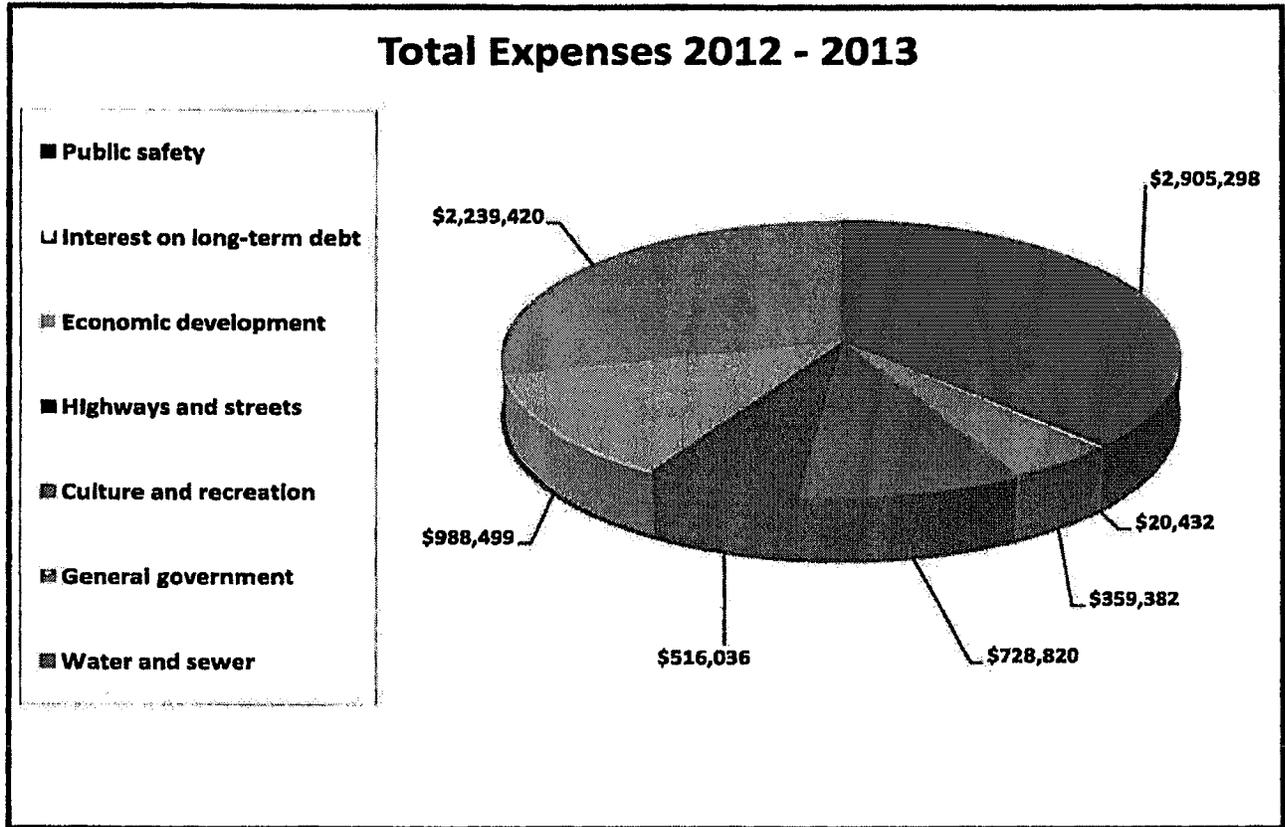
As of September 30, 2013, the City has positive balances in all three categories of net assets, both for the government as a whole, as well as separately for its governmental and business-type activities.

Changes in Net Position. The City's total revenues were \$9,212,006. Property taxes comprise 11.08%, or \$1,020,937 of the City's revenue. Sales tax revenue comprises 35.59%, or \$3,278,348 of the City's revenue. In addition, \$3,161,419 or 34.32% comes from charges for services; water and sewer fees of \$2,672,771 comprise 84.54% of the charges for services.

For the prior year, The City's total revenues were \$8,641,081. Property taxes comprise 10.54%, or \$910,859 of the City's revenue. Sales tax revenue comprises 36.58%, or \$3,161,021 of the City's revenue. In addition, \$3,081,771 or 35.66% comes from charges for services; water and sewer fees of \$2,678,041 comprise 86.90% of the charges for services.



The total cost of all programs and services for the year ended September 30, 2013, was \$7,757,887. For the prior year ended September 30, 2012, the total cost of all programs and services was \$7,908,879.



Governmental Activities

- The City increased its property tax rate for 2013 from .274498 to .298608 per \$100 valuation resulting in increased property tax income for fiscal year 2013. The increase was in the I&S tax rate.
- City sales tax revenue increased \$117,327 or 3.71% from the prior year.
- Miscellaneous income increased due to the change in the charging for administrative services.
- The increases in public safety, highways and streets and culture and recreation are related to the additional expenses from the change in administrative services. Economic development expenses decreased due to the completion or prior projects.

Business-type Activities

- Water and sewer expenses increased due to administrative charges.

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

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 488,648	\$ 403,730	\$ 2,672,771	\$ 2,678,041	\$ 3,161,419	\$ 3,081,771
Operating grants	89,713	93,191	-	-	89,713	93,191
General revenues:						
Property taxes	1,020,937	910,859	-	-	1,020,937	910,859
Sales taxes	3,278,348	3,161,021	-	-	3,278,348	3,161,021
Franchise taxes	492,154	522,844	-	-	492,154	522,844
Hotel occupancy	381,192	350,580	-	-	381,192	350,580
Investment earnings	98,338	108,908	8,334	5,042	106,672	113,950
Miscellaneous	531,407	252,912	-	-	531,407	252,912
Gain on sale of land	150,164	153,953	-	-	150,164	153,953
Total revenues	6,530,901	5,957,998	2,681,105	2,683,083	9,212,006	8,641,081
Expenditures						
General government	988,499	1,453,451	-	-	988,499	1,453,451
Public safety	2,905,298	2,463,513	-	-	2,905,298	2,463,513
Highways and streets	728,820	618,766	-	-	728,820	618,766
Economic development	359,382	959,452	-	-	359,382	959,452
Culture and recreation	516,036	381,033	-	-	516,036	381,033
Interest on long-term debt	20,432	32,159	-	-	20,432	32,159
Water and sewer	-	-	2,239,420	2,000,505	2,239,420	2,000,505
Total expenditures	5,518,467	5,908,374	2,239,420	2,000,505	7,757,887	7,908,879
Increase (decrease) in net assets before transfers	1,012,434	49,624	441,685	682,578	1,454,119	732,202
Transfers	-	60,000	-	(60,000)	-	-
Changes in net assets	1,012,434	109,624	441,685	622,578	1,454,119	732,202
Net assets, beginning	18,018,126	17,832,061	7,450,992	6,828,414	25,469,118	24,660,475
Prior period adjustment	-	76,441	-	-	-	76,441
Net assets, ending	\$ 19,030,560	\$ 18,018,126	\$ 7,892,677	\$ 7,450,992	\$ 26,923,237	\$ 25,469,118

Analysis of the City's Operations. Table A-2 provides a summary of the City's operations for the year ended September 30, 2013. The governmental activities increased the City's net assets by \$1,012,434. The business-type activities increased net assets by \$441,685.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS AND BUDGETARY HIGHLIGHTS

Governmental Funds

In the current year, actual expenditures as compared to prior year actual expenditures, decreased by \$964,356. The significant changes in actual expenditures reflected a decrease in general government of \$470,351 and economic development of \$972,990 offset by increases in public safety of \$281,039 and highways and streets of \$105,428. Also, actual resources available were \$567,955 or 9.78% more than the actual resources available in the prior year. Notable changes in actual resources were as follows: total taxes increased by \$227,659; miscellaneous revenue increased by \$260,919; and fines and fees increased by \$102,232.

Proprietary Fund

For the current year, actual expenses as compared to prior year actual expenses increased by \$203,102, or 11.69%. Operating revenues in the current year were \$5,270 or 0.20% less than the actual revenues in the prior year. The notable decrease in actual revenues was a decrease in water sales and service in the amount of \$56,366.

General Fund Budgetary Highlights

The original budget for the General Fund was amended during the year. For fiscal year 2012-2013, revenues exceeded budgetary estimates while expenditures exceeded the budget in general government, public safety, economic development and culture and recreation.

Budgeted expenditures exceeded actual expenditures by \$135,901. The most significant variance resulted from actual expenditures being less than budgeted in highways and streets by \$300,285, while actual expenditures were more than budgeted in public safety by \$77,908 and general government by \$76,983. On the other hand, actual resources available were \$339,995 more than budgeted resources.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year ended September 30, 2013, the City spent \$265,792 for governmental capital asset additions. Of the additions, \$250,123 represented the purchase of equipment. Additionally, the City spent \$172,518 for enterprise capital asset additions during the year ended September 30, 2013.

- Total gross governmental capital assets as of September 30, 2013, are \$18,102,069. For the prior year, gross governmental capital assets were \$17,836,277.
- Total gross enterprise capital assets as of September 30, 2013, are \$10,853,528. For the prior year, gross enterprise capital assets were \$10,681,010.

Additional information on the City's capital assets can be found in Note 8 to the financial statements on pages 31 – 32 of this report.

Long-term Debt

At September 30, 2013, the City had \$1,125,000 in bonds and notes outstanding. As of September 30, 2012, the City had \$1,595,000 in bonds and notes outstanding.

Additional information on the City's long-term debt can be found in Note 9 to the financial statements on pages 32 – 33 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City is continuing to budget conservatively in order to maintain fiscal responsibility. The unrestricted fund balance is the General Fund is currently approximately 5 months of estimated expenditures for a year. The City will continue to monitor its fund balance closely in order to keep a strong fund balance for future considerations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF BELLMEAD, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,357,298	\$ 3,765,765	\$ 11,123,063
Accounts receivable, net	659,425	351,409	1,010,834
Inventories	728	19,713	20,441
Internal balances	4,012	(4,012)	-
Prepays	440	-	440
Restricted cash and cash equivalents	-	20,419	20,419
Equity in joint venture	-	1,568,316	1,568,316
Lease receivable:			
Due within one year	174,320	-	174,320
Due in more than one year	1,063,162	-	1,063,162
Deferred charges	10,817	34,453	45,270
Capital assets not being depreciated:			
Land	2,771,193	38,799	2,809,992
Construction in progress	-	64,039	64,039
Capital assets, net of accumulated depreciation:			
Building and improvements	4,712,483	844,812	5,557,295
Infrastructure	2,863,312	-	2,863,312
Water and sewer facilities	-	2,175,573	2,175,573
Equipment	1,530,180	225,080	1,755,260
Total assets	<u>21,147,370</u>	<u>9,104,366</u>	<u>30,251,736</u>
LIABILITIES			
Accounts payable	172,179	179,268	351,447
Accrued liabilities	102,993	14,615	117,608
Customer deposits payable	-	310,741	310,741
Noncurrent liabilities:			
Deferred revenue:			
Due within one year	174,320	-	174,320
Due in more than one year	1,063,162	-	1,063,162
Notes and bonds payable:			
Due within one year	337,289	184,266	521,555
Due in more than one year	266,867	522,799	789,666
Total liabilities	<u>2,116,810</u>	<u>1,211,689</u>	<u>3,328,499</u>
NET POSITION			
Net investment in capital assets	11,452,985	2,658,303	14,111,288
Restricted for:			
Court security and technology	31,225	-	31,225
Public safety	81,259	-	81,259
Debt service	189,364	-	189,364
Capital projects	-	20,419	20,419
Economic development	3,166,471	-	3,166,471
Culture and recreation	995,230	-	995,230
Unrestricted	<u>3,114,026</u>	<u>5,213,955</u>	<u>8,327,981</u>
Total net position	<u>\$ 19,030,560</u>	<u>\$ 7,892,677</u>	<u>\$ 26,923,237</u>

See accompanying notes to financial statements.

CITY OF BELLMEAD, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 988,499	\$ 55,093	\$ -	\$(933,406)	\$ -	\$(933,406)
Public safety	2,905,298	371,414	20,015	(2,513,869)	-	(2,513,869)
Highways and streets	728,820	-	69,698	(659,122)	-	(659,122)
Economic development	359,382	25,276	-	(334,106)	-	(334,106)
Culture and recreation	516,036	36,865	-	(479,171)	-	(479,171)
Interest on long-term debt	20,432	-	-	(20,432)	-	(20,432)
Total governmental activities	5,518,467	488,648	89,713	(4,940,106)	-	(4,940,106)
Business-type activities:						
Water and sewer	2,239,420	2,672,771	-	-	433,351	433,351
Total business-type activities	2,239,420	2,672,771	-	-	433,351	433,351
Total primary government	\$ 7,757,887	\$ 3,161,419	\$ 89,713	(4,940,106)	433,351	(4,506,755)
General revenues:						
Property taxes, levied for general purposes				716,024	-	716,024
Property taxes, levied for debt service				304,913	-	304,913
Sales taxes				3,278,348	-	3,278,348
Franchise taxes				492,154	-	492,154
Hotel occupancy taxes				381,192	-	381,192
Investment earnings				98,338	8,334	106,672
Miscellaneous				531,407	-	531,407
Gain on sale of assets				150,164	-	150,164
Total general revenues and transfers				5,952,540	8,334	5,960,874
Change in net position				1,012,434	441,685	1,454,119
Net position, beginning				18,018,126	7,450,992	25,469,118
Net position, ending				\$ 19,030,560	\$ 7,892,677	\$ 26,923,237

See accompanying notes to financial statements.

CITY OF BELLMEAD, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General	Bellmead EDC A
ASSETS		
Cash and cash equivalents	\$ 3,083,364	\$ 1,366,537
Receivables (net of allowance for uncollectibles)	534,906	-
Lease receivable	-	1,237,482
Due from other funds	-	-
Prepays	440	-
Inventories	728	-
Total assets	\$ 3,619,438	\$ 2,604,019
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 117,632	\$ 1,900
Accrued liabilities	98,543	-
Due to other funds	38,173	1,585
Deferred revenue - sale of building	-	1,237,482
Deferred revenue - delinquent property taxes	81,160	-
Total liabilities	335,508	1,240,967
Fund balances:		
Restricted for:		
Inventories	728	-
Prepays	440	-
Public safety	81,259	-
Court technology	-	-
Culture and recreation	-	-
Economic development	-	1,363,052
Debt service	-	-
Committed for:		
Street improvements	1,331,796	-
Unrestricted	1,869,707	-
Total fund balances	3,283,930	1,363,052
Total liabilities and fund balances	\$ 3,619,438	\$ 2,604,019

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Includes compensated absences of \$169,156 and long-term debt of \$435,000 less deferred charges of \$10,817.

Net position of governmental activities

See accompanying notes to financial statements.

Bellmead EDC B	Hotel/Motel Tax	Other Governmental	Total Governmental Funds
\$ 1,719,172	\$ 1,037,727	\$ 150,498	\$ 7,357,298
89,665	-	34,854	659,425
-	-	-	1,237,482
1,585	6,948	35,237	43,770
-	-	-	440
-	-	-	728
<u>\$ 1,810,422</u>	<u>\$ 1,044,675</u>	<u>\$ 220,589</u>	<u>\$ 9,299,143</u>
\$ 7,003	\$ 45,644	\$ -	\$ 172,179
-	3,801	-	102,344
-	-	-	39,758
-	-	-	1,237,482
-	-	33,738	114,898
<u>7,003</u>	<u>49,445</u>	<u>33,738</u>	<u>1,666,661</u>
-	-	-	728
-	-	-	440
-	-	-	81,259
-	-	31,225	31,225
-	995,230	-	995,230
1,803,419	-	-	3,166,471
-	-	155,626	155,626
-	-	-	1,331,796
-	-	-	1,869,707
<u>1,803,419</u>	<u>995,230</u>	<u>186,851</u>	<u>7,632,482</u>
<u>\$ 1,810,422</u>	<u>\$ 1,044,675</u>	<u>\$ 220,589</u>	
			11,877,168
			114,249
			(593,339)
			<u>\$ 19,030,560</u>

CITY OF BELLMEAD, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>	<u>Bellmead EDC A</u>
REVENUES		
Taxes:		
Property	\$ 721,099	\$ -
Sales	2,731,957	-
Franchise	492,154	-
Hotel occupancy	-	-
Other	52,305	-
Licenses and permits	55,093	-
Intergovernmental	89,713	-
Rent	-	-
Fines and fees	371,414	-
Investment earnings	15,658	80,122
Miscellaneous	479,102	-
Total revenues	<u>5,008,495</u>	<u>80,122</u>
EXPENDITURES		
General government	909,033	-
Public safety	2,818,756	-
Highways and streets	616,325	-
Economic and physical development	1,000	50,049
Culture and recreation	69,733	-
Debt service:		
Principal	-	-
Interest and other charges	-	-
Capital outlay	-	-
Total expenditures	<u>4,414,847</u>	<u>50,049</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>593,648</u>	<u>30,073</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	(43,375)
Sale of property	-	150,164
Total other financing sources (uses)	<u>-</u>	<u>106,789</u>
NET CHANGE IN FUND BALANCE	593,648	136,862
FUND BALANCE, BEGINNING	<u>2,690,282</u>	<u>1,226,190</u>
FUND BALANCE, ENDING	<u>\$ 3,283,930</u>	<u>\$ 1,363,052</u>

See accompanying notes to financial statements.

<u>Bellmead EDC B</u>	<u>Hotel/Motel Tax</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 296,963	\$ 1,018,062
546,391	-	-	3,278,348
-	-	-	492,154
-	381,192	-	381,192
-	-	-	52,305
-	-	-	55,093
-	-	-	89,713
25,276	36,865	-	62,141
-	-	-	371,414
1,506	764	288	98,338
-	-	-	479,102
<u>573,173</u>	<u>418,821</u>	<u>297,251</u>	<u>6,377,862</u>
-	-	-	909,033
-	-	-	2,818,756
-	-	-	616,325
214,223	-	-	265,272
-	275,189	-	344,922
-	-	290,000	290,000
-	-	10,048	10,048
<u>50,440</u>	<u>96,860</u>	<u>-</u>	<u>147,300</u>
<u>264,663</u>	<u>372,049</u>	<u>300,048</u>	<u>5,401,656</u>
<u>308,510</u>	<u>46,772</u>	<u>(2,797)</u>	<u>976,206</u>
43,375	-	-	43,375
-	-	-	(43,375)
-	-	-	150,164
<u>43,375</u>	<u>-</u>	<u>-</u>	<u>150,164</u>
351,885	46,772	(2,797)	1,126,370
<u>1,451,534</u>	<u>948,458</u>	<u>189,648</u>	<u>6,506,112</u>
<u>\$ 1,803,419</u>	<u>\$ 995,230</u>	<u>\$ 186,851</u>	<u>\$ 7,632,482</u>

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CITY OF BELLMEAD, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances - total governmental funds	\$ 1,126,370
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$637,755) exceeds capital asset additions (\$265,792) in the current period.	(371,963)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,875
The issuance of long-term debt (e.g., bonds, leases) provided current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	279,184
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(24,032)
Changes in net position of governmental activities	\$ <u>1,012,434</u>

See accompanying notes to financial statements.

CITY OF BELLMEAD, TEXAS
STATEMENT OF NET POSITION
PROPREITARY FUND
SEPTEMBER 30, 2013

	<u>Business-type Activities Enterprise Fund Water and Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,765,765
Accounts receivable, net of allowance for uncollectibles of \$41,383:	
Accounts	346,734
Other	4,675
Inventories	19,713
Total current assets	<u>4,136,887</u>
Noncurrent assets:	
Restricted cash	20,419
Deferred charges	34,453
Equity in joint venture	1,568,316
Capital assets:	
Land	38,799
Buildings and improvements	877,695
Water and sewer facilities	8,535,332
Equipment	1,337,663
Construction in progress	64,039
Less: accumulated depreciation	<u>(7,505,225)</u>
Total capital assets (net of accumulated depreciation)	3,348,303
Total noncurrent assets	<u>4,971,491</u>
Total assets	<u>9,108,378</u>
LIABILITIES	
Current liabilities:	
Accounts payable	179,268
Accrued liabilities	14,615
Customer deposits payable	310,741
Compensated absences, current portion	4,266
Due to other funds	4,012
Revenue bond and note payable, current portion	180,000
Total current liabilities	<u>692,902</u>
Noncurrent liabilities:	
Compensated absences	12,799
Revenue bond and note payable	510,000
Total noncurrent liabilities	<u>522,799</u>
Total liabilities	1,215,701
NET POSITION	
Net investment in capital assets	2,658,303
Restricted for:	
Capital projects	20,419
Unrestricted	<u>5,213,955</u>
Total net position	<u>\$ 7,892,677</u>

See accompanying notes to financial statements.

CITY OF BELLMEAD, TEXAS
STATEMENT OF ACTIVITIES
PROPREITARY FUND
SEPTEMBER 30, 2013

	Business-type Activities <u>Enterprise Fund</u> <u>Water and Sewer</u>
REVENUE	
Operating revenues:	
Water sales	\$ 1,742,552
Sewer charges	804,215
Turn-on fees	54,025
Water and sewer tap fees	19,881
Other	<u>52,098</u>
Total operating revenue	<u>2,672,771</u>
EXPENSES	
Operating expenses:	
Salaries and benefits	488,126
System repair and maintenance	160,167
Auto and equipment maintenance	57,423
Office expense	31,167
Professional fees	52,441
Utilities	340,320
Depreciation	411,782
Insurance	38,577
Miscellaneous	<u>360,620</u>
Total operating expenses	<u>1,940,623</u>
OPERATING INCOME	<u>732,148</u>
NONOPERATING REVENUES (EXPENSES)	
Interest and other income	8,334
Gain (loss) on joint venture	(276,491)
Interest charges	<u>(22,306)</u>
Total nonoperating revenue (expenses)	<u>(290,463)</u>
CHANGE IN NET POSITION	441,685
NET POSITION, BEGINNING	<u>7,450,992</u>
NET POSITION, ENDING	<u>\$ 7,892,677</u>

See accompanying notes to financial statements.

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CITY OF BELLMEAD, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities <u>Enterprise Fund</u> <u>Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 2,662,958
Payments to suppliers	(1,076,339)
Payments to employees	(503,714)
Net cash provided by operating activities	<u>1,082,905</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(172,518)
Principal paid on bonds and note payable	(180,000)
Interest paid on bonds and note payable	(13,693)
Net cash provided by capital and related financing activities	<u>(366,211)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in joint venture	(269,029)
Interest received	8,334
Net cash provided by investing activities	<u>(260,695)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	455,999
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,330,185</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 3,786,184</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 732,148
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	411,782
Change in assets and liabilities:	
Accounts receivable, net	(9,813)
Customer deposits	16,967
Accounts payable	(56,603)
Due to other funds	4,012
Other liabilities	(15,588)
Net cash provided by operating activities	<u>\$ 1,082,905</u>

See accompanying notes to financial statements.

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CITY OF BELLMEAD, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

The Bellmead Economic Development Corporation Type A (EDC A) and Bellmead Economic Development Corporation Type B are *blended component units* and are reported within the City's primary government. The Corporations are responsible for certain economic development expenditures benefiting all citizens of the government and are financed by a portion of sales tax revenue and are governed by a board comprised of members of the government's council and citizens of the community. The Corporations have a September 30 year-end and are reported as Special Revenue Funds. A separately issued financial report is available for the Bellmead Economic Development Corporations may be obtained from the City of Bellmead.

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

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

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

The City reports the following major proprietary fund:

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

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

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenue includes all taxes.

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

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

D. Assets, Liabilities and Net Position or Equity

Deposits and Investments

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

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

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories and Prepaid Items

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

Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected to report general infrastructure assets prospectively from October 1, 2003, as permitted by GASB Statement No. 34. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

Restricted Assets

Restricted cash accounts in the Water and Sewer Fund of \$20,419 represents proceeds from the 2008 tax and revenue certificates of obligation that have not been spent but have been restricted to purchase water and sewer improvements in the future.

Long-term Debt

In the government-wide financial statements, outstanding debt is reported as liabilities. Outstanding debt is reported within governmental activities based on use of proceeds. Bond issuance costs are capitalized and amortized over the terms of the respective bonds using the straight-line method.

The governmental fund level financial statements recognize the proceeds of debt as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity and Net Position

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

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

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

In the government-wide financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The government-wide and fund level financial statements report restricted fund balances for amounts not available for appropriation or legally restricted for specific uses. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the City's policy to use restricted resources first, then unrestricted resources as needed. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Compensated Absences

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance of total governmental funds and net position of governmental activities as reported in the government-wide statement of net position.

The governmental statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances of total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

3. UNDIVIDED INTEREST IN WACO METROPOLITAN AREA REGIONAL SEWER SYSTEM

During 2004, the City entered into an agreement with the City of Waco, Texas to acquire a 5.73% undivided interest in the facilities and operations of the Waco Metropolitan Area Regional Sewer System (WMARSS). The City believes that its purchase and operation of the system will increase the efficiency and effectiveness of providing sewer treatment services to its citizens.

During 2009, the undivided interest of 5.73% in the WMARSS facilities and operations was adjusted to 5.707% to adjust another City's allocation to the agreement.

Under an interlocal agreement, a WMARSS board consists of the City managers from each of the seven participating cities. The operation and administration of the system is subject to joint control by the cities through the WMARSS board; however, a separate legal entity was not created. The agreement allows the cities to pool resources and share the costs, risk, and rewards of providing services. Further, each City retains an ongoing financial interest and ongoing financial interest and ongoing financial responsibility in the operations of the system.

The City has reported its share of assets, liabilities, equity, revenues and expenses that are associated with this joint activity in its Enterprise Fund as follows:

Current assets	\$ 300,767
Capital assets	1,409,307
Current liabilities	(141,758)
Net assets	\$ <u>1,568,316</u>
Operating expenses	\$(297,298)
Nonoperating revenues	<u>20,807</u>
Change in net assets	\$(<u>276,491</u>)
Capital contributions - current year	\$ <u>269,029</u>

4. DEPOSITS AND INVESTMENTS

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

Cash and certificates of deposit in bank	\$ 11,067,741
Government investment pools:	
TexPool	115,607
TexStar	<u>68,234</u>
Total cash and cash equivalents	\$ <u>11,251,582</u>

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in shorter-term certificates of deposit, securities, money market mutual funds, or government investment pools, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to invest in securities maturing more than three years from the date of purchase. At September 30, 2013, the City's only investment is in external investment pools. The weighted average maturity of Texas Local Government Investment Pool (TexPool) and Texas Short-term Asset Reserve Fund (TexStar) as of September 30, 2013, is less than 60 days.

Credit Risk. The City's investment policy limits investments in governmental investment pools and money market mutual funds to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2013, the City's investment in TexPool and TexStar was rated AAA by Standard & Poor's.

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

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

TexPool and TexStar operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool and TexStar use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and TexStar is the same as the value of TexPool shares and TexStar shares.

5. RECEIVABLES

Receivables as of September 30, 2013, for the City’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	Bellmead Economic Development Corporation - B	Other Nonmajor	Water and Sewer	<u>Total</u>
Receivables:					
Property taxes	\$ 84,079	\$ -	\$ 34,854	\$ -	\$ 118,933
Sales taxes	448,326	89,665	-	-	537,991
Accounts	-	-	-	392,169	392,169
Other	<u>2,501</u>	<u>-</u>	<u>-</u>	<u>4,675</u>	<u>7,176</u>
Gross receivables	534,906	89,665	34,854	396,844	1,056,269
Less: allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	(45,435)	(45,435)
Net total receivables	<u>\$ 534,906</u>	<u>\$ 89,665</u>	<u>\$ 34,854</u>	<u>\$ 351,409</u>	<u>\$ 1,010,834</u>

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

The City’s property tax is levied each October 1 on assessed value listed as of the prior January 1 for all real and business personal property located in the City. The new assessed value upon which the fiscal 2013 levy was based was \$337,037,305.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2013, were 97.3 % of the tax levy.

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payable balances at September 30, 2013, are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ -	\$ 38,173
Bellmead EDC - A	-	1,585
Bellmead EDC - B	1,585	-
Hotel/Motel Tax	6,948	-
Nonmajor	35,237	-
Water and sewer	<u>-</u>	<u>4,012</u>
Totals	<u>\$ 43,770</u>	<u>\$ 43,770</u>

All balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers at September 30, 2013, are as follows:

	<u>Bellmead EDC - B</u>	<u>Total</u>
Transfers out:		
Bellmead EDC - A	\$ <u>43,375</u>	\$ <u>43,375</u>
 Total transfers	 \$ <u>43,375</u>	 \$ <u>43,375</u>

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

7. LEASE RECEIVABLES

The Bellmead Economic Development Corporation (BEDC) has completed construction on a building which will be utilized as a plant and office space by Texas Machine & Tool International, LLC (TMI). BEDC has entered into a 10-year lease agreement with TMI to lease the property in accordance with the following schedule based on the construction cost of the building, not to exceed \$1,832,000. At any time after the fifth year of the lease, TMI can purchase the building at amounts specified in the lease agreement. If the lease lasts to its maturity, TMI can purchase the building for \$0. After the 2013 payments, the current lease receivable is \$1,237,482.

The lease began October 1, 2009. The payments, including interest at 6.5% are:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 174,320	\$ 75,304
2015	185,994	63,630
2016	198,451	51,173
2017	211,742	37,882
2018	225,922	23,702
2019-2022	<u>241,053</u>	<u>8,571</u>
	<u>\$ 1,237,482</u>	<u>\$ 260,262</u>

8. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	Balance October 1, 2012	Additions	Deletions	Balance September 30, 2013
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,771,193	\$ -	\$ -	\$ 2,771,193
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>2,771,193</u>	<u>-</u>	<u>-</u>	<u>2,771,193</u>
Capital assets being depreciated:				
Buildings and improvements	6,515,950	15,669	-	6,531,619
Infrastructure	3,191,770	-	-	3,191,770
Equipment	5,357,364	250,123	-	5,607,487
Total capital assets being depreciated	<u>15,065,084</u>	<u>265,792</u>	<u>-</u>	<u>15,330,876</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,596,169)	(222,967)	-	(1,819,136)
Infrastructure	(249,373)	(79,085)	-	(328,458)
Equipment	(3,741,604)	(335,703)	-	(4,077,307)
Total accumulated depreciation	<u>(5,587,146)</u>	<u>(637,755)</u>	<u>-</u>	<u>(6,224,901)</u>
Total capital assets being depreciated, net	<u>9,477,938</u>	<u>(371,963)</u>	<u>-</u>	<u>9,105,975</u>
Governmental activities capital assets, net	<u>\$ 12,249,131</u>	<u>\$(371,963)</u>	<u>\$ -</u>	<u>\$ 11,877,168</u>
	Balance October 1, 2012	Additions	Deletions	Balance September 30, 2013
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 38,799	\$ -	\$ -	\$ 38,799
Construction in progress	1,002,387	-	(938,348)	64,039
Total capital assets not being depreciated	<u>1,041,186</u>	<u>-</u>	<u>(938,348)</u>	<u>102,838</u>
Capital assets being depreciated:				
Buildings and improvements	12,461	865,234	-	877,695
Water and sewer facilities	8,361,013	174,319	-	8,535,332
Equipment	1,266,350	71,313	-	1,337,663
Total capital assets being depreciated	<u>9,639,824</u>	<u>1,110,866</u>	<u>-</u>	<u>10,750,690</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,943)	(21,940)	-	(32,883)
Water and sewer facilities	(6,015,345)	(344,414)	-	(6,359,759)
Equipment	(1,067,155)	(45,428)	-	(1,112,583)
Total accumulated depreciation	<u>(7,093,443)</u>	<u>(411,782)</u>	<u>-</u>	<u>(7,505,225)</u>
Total capital assets being depreciated, net	<u>2,546,381</u>	<u>699,084</u>	<u>-</u>	<u>3,245,465</u>
Business-type activities capital assets, net	<u>\$ 3,587,567</u>	<u>\$ 699,084</u>	<u>\$(938,348)</u>	<u>\$ 3,348,303</u>

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

Governmental activities	
General government	\$ 87,783
Public safety	259,730
Highways and streets	109,573
Economic development	109,168
Culture and recreation	<u>71,501</u>
Total depreciation - governmental activities	<u>\$ 637,755</u>
Business-type activities	
Water and sewer	<u>\$ 411,782</u>
Total depreciation - business-type activities	<u>\$ 411,782</u>

9. LONG-TERM DEBT

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

The following is a summary of changes in long-term debt of the year ended September 30, 2013:

	Balance October 1, 2012	Additions	Retirements	Balance September 30, 2013	Due Within One Year
Governmental activities					
General obligation refunding bonds, Series 2012	\$ 495,000	\$ -	\$(245,000)	\$ 250,000	\$ 250,000
Tax anticipation notes	230,000	-	(45,000)	185,000	45,000
Compensated absences	<u>144,692</u>	<u>47,114</u>	<u>(22,650)</u>	<u>169,156</u>	<u>42,289</u>
	<u>\$ 869,692</u>	<u>\$ 47,114</u>	<u>\$(312,650)</u>	<u>\$ 604,156</u>	<u>\$ 337,289</u>
Business-type activities					
General obligation refunding bonds, Series 2012	\$ 870,000	\$ -	\$(180,000)	\$ 690,000	\$ 180,000
Compensated absences	<u>22,950</u>	<u>24,678</u>	<u>(30,563)</u>	<u>17,065</u>	<u>4,266</u>
	<u>\$ 892,950</u>	<u>\$ 24,678</u>	<u>\$(210,563)</u>	<u>\$ 707,065</u>	<u>\$ 184,266</u>

Long-term debt for governmental activities at September 30, 2013, is comprised of the following:

\$495,000 Series 2012 General Obligation Refunding Bonds, due in annual installments of \$245,000 to \$250,000 with an interest rate of 1.79%, maturing in 2014.	<u>\$ 250,000</u>
\$230,000 Series 2012 Tax Anticipation Notes, due in annual installments of \$45,000 to \$50,000 with an interest rate of 1.79%, maturing in 2017.	<u>\$ 185,000</u>

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

Year Ended September 30,	General Obligation Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2014	\$ 250,000	\$ 2,237	\$ 45,000	\$ 2,909
2015	-	-	45,000	2,103
2016	-	-	45,000	1,298
2017	-	-	50,000	448
	<u>\$ 250,000</u>	<u>\$ 2,237</u>	<u>\$ 185,000</u>	<u>\$ 6,758</u>

Long-term debt for business-type activities at September 30, 2013, is comprised of the following:

\$870,000 Series 2012 General Obligation Refunding Bonds, due in annual installments of \$165,000 to \$180,000 with an interest rate of 1.79%, maturing in 2017.	<u>690,000</u>
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Annual debt service requirements to maturity for business-type activities are as follows:

Year Ended September 30,	Principal	Interest
2014	\$ 180,000	\$ 10,740
2015	165,000	7,652
2016	170,000	4,654
2017	175,000	1,566
	<u>\$ 690,000</u>	<u>\$ 24,612</u>

In March 2012, the City issued \$230,000 in Tax Anticipation Notes in order to finance the purchase of police vehicles and fire department equipment.

10. EMPLOYEE BENEFIT PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	6%	6%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
9/30/2011	346,440	346,440	100%	-
9/30/2012	268,019	268,019	100%	-
9/30/2013	241,743	241,743	100%	-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.1 closed period	26.4 closed period	25.1 closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress –

The funded status as of December 31, 2010, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2012	\$ 9,412,845	\$ 9,736,082	96.7%	\$ 323,237	\$ 2,780,627	11.6%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

11. OTHER POSTEMPLOYMENT BENEFITS

Supplemental Death Benefits Fund

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

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

Contributions

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

Schedule of Contribution Rates (RETIREE-only portion of the rate)			
Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.06%	0.06%	100%
2011	0.05%	0.05%	100%
2012	0.05%	0.05%	100%

12. COMMITMENTS AND CONTINGENCIES

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

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

13. RISK MANAGEMENT

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

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

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

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