

OFFICIAL STATEMENT

Dated January 21, 2014

**Ratings:
Moody's: "Aa2"
S&P: "AA"
See "OTHER
INFORMATION - RATINGS"**

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law interest on the Certificates is excludable from gross income for federal income tax purposes and the Certificates are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

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

**CITY OF WACO, TEXAS
(McLennan County)**

**\$9,650,000
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2014**

Dated Date: February 15, 2014

Due: February 1, as shown on inside cover

Interest Accrual Date: Date of Delivery

The \$9,650,000 City of Waco, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2014 (the "Certificates,"), are being issued by the City of Waco, Texas (the "City"), pursuant to the terms of an ordinance adopted by the City Council of the City.

Interest on the Certificates will accrue from the date of initial delivery, and will be payable February 1 and August 1 of each year commencing February 1, 2015, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES – PAYING AGENT/REGISTRAR").

PURPOSE OF THE CERTIFICATES. . . . Proceeds from the sale of the Certificates will be used to pay for the cost of (1) construction and acquisition of, and improvements to, City streets, traffic control systems, sidewalks, street lighting and drainage, including the acquisition of land and rights-of-way in connection therewith; (2) the acquisition of vehicles, fire-fighting equipment, radio equipment and other equipment for authorized City purposes; (3) improvements to City sanitary sewer facilities, including the acquisition of land and rights-of-way in connection therewith; (4) improvements to the City's waterworks system, including acquisition of land and rights-of-way in connection therewith; and (5) professional services incurred in connection with items (1) through (4), and to pay the costs incurred in connection with the issuance of the Certificates (see "THE CERTIFICATES – PURPOSE OF THE CERTIFICATES").

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES. . . . The Certificates are issued pursuant to the Constitution and the general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council of the City (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE OF THE CERTIFICATES").

SECURITY FOR THE CERTIFICATES. . . . The Certificates constitute direct obligations of the City, payable from a combination of (i) the collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus revenues of the City's water and sewer system, as provided in the Ordinance (see "THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES").

OPTIONAL REDEMPTION. . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and accepted by the Initial Purchaser subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Dallas, Texas (see "APPENDIX C - FORM OF BOND COUNSEL'S OPINION").

DELIVERY. . . . It is expected that the Certificates will be available for delivery through DTC on February 19, 2014.

MATURITY SCHEDULE

\$9,650,000
CITY OF WACO, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014

Due February 1	Principal	Interest Rate	Initial Reoffering Yield	CUSIP Number ⁽¹⁾
2015	\$ 250,000	2.000%	0.300%	929831 FP5
2016	385,000	2.000%	0.450%	929831 FQ3
2017	395,000	2.000%	0.650%	929831 FR1
2018	405,000	2.000%	0.900%	929831 FS9
2019	410,000	2.000%	1.200%	929831 FT7
2020	420,000	2.000%	1.550%	929831 FU4
2021	430,000	2.000%	1.800%	929831 FV2
2022	440,000	3.000%	2.000%	929831 FW0
2023	450,000	3.000%	2.200%	929831 FX8
2024 ⁽²⁾	465,000	3.000%	2.350%	929831 FY6
2025 ⁽²⁾	480,000	3.000%	2.500%	929831 FZ3
2026 ⁽²⁾	495,000	3.000%	2.600%	929831 GA7
2027 ⁽²⁾	510,000	3.000%	2.750%	929831 GB5
2028 ⁽²⁾	525,000	3.000%	2.950%	929831 GC3
2029 ⁽²⁾	545,000	3.500%	3.100%	929831 GD1
2030 ⁽²⁾	560,000	3.500%	3.200%	929831 GE9
2031 ⁽²⁾	585,000	4.000%	3.300%	929831 GF6
2032 ⁽²⁾	610,000	4.000%	3.400%	929831 GG4
2033 ⁽²⁾	630,000	4.000%	3.500%	929831 GH2
2034 ⁽²⁾	660,000	4.000%	3.600%	929831 GJ8

(1) CUSIP Numbers have been assigned to the Certificates by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Certificates. None of the City, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(2) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – OPTIONAL REDEMPTION").

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

NONE OF THE CITY, THE FINANCIAL ADVISOR OR THE INITIAL PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

No registration statement relating to the Certificates has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been registered or qualified under the securities laws of any other jurisdiction. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.

The statements contained in this Official Statement that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions or strategies regarding the future. 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. See "OTHER INFORMATION – FORWARD-LOOKING STATEMENTS."

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

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Waco, Texas (the “City”), is a political subdivision and municipal corporation of the State of Texas (the “State”), located in McLennan County, Texas. The City covers approximately 99 square miles (see “INTRODUCTION - DESCRIPTION OF THE CITY”).
- THE CERTIFICATES** The Certificates are issued as \$9,650,000 Combination Tax and Revenue Certificates of Obligation, Series 2014. The Certificates are issued as serial bonds maturing February 1, 2015 through February 1, 2034. The initial purchaser may combine certain maturities to create term Certificates as permitted by the Notice of Sale and Bidding Instructions for the Certificates (see “THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES”).
- PAYMENT OF INTEREST** Interest on the Certificates accrues from the date of initial delivery, and will be payable on February 1, 2015, and each August 1 and February 1 thereafter until maturity or prior redemption (see “THE CERTIFICATES”).
- AUTHORITY FOR ISSUANCE OF THE CERTIFICATES** The Certificates are issued pursuant to the Constitution and the general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, and an ordinance (the “Ordinance”) passed by the City Council of the City (see “THE CERTIFICATES - AUTHORITY FOR ISSUANCE OF THE CERTIFICATES”).
- SECURITY FOR THE CERTIFICATES**..... The Certificates constitute direct obligations of the City, payable from a combination of (i) the collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus revenues of the City’s water and sewer system, as provided in the Ordinance (see “THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES”).
- REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES - OPTIONAL REDEMPTION”).
- TAX EXEMPTION** In the opinion of Bond Counsel, under existing law interest on the Certificates is excludable from gross income for federal income tax purposes and the Certificates are not “private activity bonds.” See “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.
- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The City has designated the Certificates as “qualified tax-exempt obligations” for financial institutions (see “TAX MATTERS - PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS”).
- PURPOSE OF THE CERTIFICATES.** Proceeds from the sale of the Certificates will be used to pay for the cost of (1) construction and acquisition of, and improvements to, City streets, traffic control systems, sidewalks, street lighting and drainage, including the acquisition of land and rights-of-way in connection therewith; (2) the acquisition of vehicles, fire-fighting equipment, radio equipment and other equipment for authorized City purposes; (3) improvements to City sanitary sewer facilities, including the acquisition of land and rights-of-way in connection therewith; (4) improvements to the City’s waterworks system, including acquisition of land and rights-of-way in connection therewith; and (5) professional services incurred in connection with items (1) through (4), and to pay the costs incurred in connection with the issuance of the Certificate. (see “THE CERTIFICATES – PURPOSE OF THE CERTIFICATES”).
- RATINGS** The Certificates and presently outstanding tax supported debt of the City are rated “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”) and “AA” by Standard & Poor’s Ratings Services, A Division of The McGraw-Hill Companies, Inc. (“S&P”) (see “OTHER INFORMATION - RATINGS”).
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM”).
- PAYMENT RECORD**..... The City has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt ⁽³⁾	Per Capita G.O. Tax Debt	Ratio Tax	
						Debt to Taxable Assessed Valuation	Percent Total Collections
2009	123,650	\$ 6,010,184,387	\$ 48,606	\$ 98,915,554	\$ 800	1.65%	99.03%
2010	124,805	6,174,641,741	49,474	96,976,624	777	1.57%	98.48%
2011	125,971	6,280,537,667	49,857	97,700,518	776	1.56%	99.86%
2012	127,018	6,446,556,172	50,753	93,949,731	740	1.46%	98.76%
2013	128,125	6,651,867,637	51,917	90,200,143	704	1.36%	100.05%
2014	129,241	6,808,589,094	52,681	86,570,000 ⁽⁴⁾	670 ⁽⁴⁾	1.27% ⁽⁴⁾	⁽⁵⁾

- (1) Source: The City.
- (2) As reported by the McLennan County Appraisal District on the City's annual State Property Tax Board Reports; subject to change during the ensuing year.
- (3) Payable from ad valorem taxes. This number excludes general obligation debt that is self supporting by virtue of payment from airport, water, sewer and solid waste revenues, as well as revenues from any tax increment fund. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "DEBT INFORMATION - TABLE 10 - SELF-SUPPORTING DEBT."
- (4) As of February 15, 2014, includes the Certificates.
- (5) In process of collection.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30				
	2013	2012	2011	2010 ⁽¹⁾	2009
Beginning Balance	\$ 37,648,188	\$ 34,720,577	\$ 31,241,750	\$ 31,851,097	\$ 24,635,803
Total Revenue	107,700,840	101,716,508	97,467,794	95,532,794	93,818,275
Total Expenditures	99,918,052	98,788,896	93,988,967	96,142,141	95,188,703
Prior Period Adjustment	-	-	-	-	274,482 ⁽²⁾
Ending Balance	<u>\$ 45,430,976</u>	<u>\$ 37,648,188</u>	<u>\$ 34,720,577</u>	<u>\$ 31,241,750</u>	<u>\$ 23,539,857</u>

- (1) Restated pursuant to GASB Statement No. 54.
- (2) Prior period adjustment was to record inventory previously expensed when purchased.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Title</u>	<u>On Council Since</u>	<u>Occupation</u>
Malcolm Duncan, Jr.	Mayor	June 2010	Business Executive
John Kinnaird	Mayor Pro Tem	May 2012	Investment Portfolio Manager
Wilbert Austin, Sr.	Council Member	May 2006	Pastor
Alice Rodriguez	Council Member	May 2005	Retired
Toni Herbert	Council Member	May 2009	Nonprofit Management
Kyle Deaver	Council Member	June 2012	Attorney

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Year Employed</u>	<u>Municipal Experience</u>
Larry D. Groth, P.E.	City Manager	1998	34 Years
Dale A. Fisseler, P.E.	Deputy City Manager	2011	33 Years
Wiley Stem III	Assistant City Manager	1976	37 Years
George Johnson, Jr.	Assistant City Manager	1989	24 Years
Janice J. Andrews, C.P.A.	Director of Finance	1988	25 Years
Jennifer Richie	City Attorney	2012	14 Years
Patricia Ervin	City Secretary	1982	33 Years

CONSULTANTS AND ADVISORS

Auditors Jaynes, Reitmeier, Boyd & Therrell, P.C.
Waco, Texas

Bond Counsel Bracewell & Giuliani LLP
Dallas, Texas

Financial Advisor First Southwest Company
Houston, Texas

For additional information regarding the City, please contact:

Janice J. Andrews Director of Finance City of Waco 300 Austin Avenue Waco, Texas 76701 (254) 750-5769	or	Drew K. Masterson First Southwest Company 700 Milam Street Suite 500 Houston, Texas 77002 (713) 651-9850
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OFFICIAL STATEMENT
RELATING TO
\$9,650,000
CITY OF WACO, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2014

INTRODUCTION

This Official Statement, which includes the cover page and Appendices hereto, provides certain information regarding the issuance of \$9,650,000 City of Waco, Texas Combination Tax and Revenue Certificates of Obligation, Series 2014 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted by the City Council of the City of Waco, Texas (the "City"), authorizing the issuance of the Certificates (the "Ordinance") adopted on the date of sale of the Certificates, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City, and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Houston, Texas.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), located in McLennan County, duly organized and existing under the laws of the State, and the City's Home Rule Charter. The City was incorporated in 1856, and first adopted its Home Rule Charter in 1913. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Council members who serve staggered two-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water, solid waste, health and social services, culture-recreation, public transportation, planning and zoning, and general administrative services. The 2010 Census population for the City was 124,805, while the estimated 2014 population is 129,241. The City covers approximately 99 square miles. See "APPENDIX A - GENERAL INFORMATION REGARDING THE CITY".

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated February 15, 2014 (the "Dated Date"), and mature on February 1 in each of the years and in the amounts shown on the inside front cover page hereof. Interest will accrue from the date of initial delivery, will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 1, 2015, and each August 1 and February 1 thereafter until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM."

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES

The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES

The Certificates constitute direct obligations of the City, payable from a combination of (i) the collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus revenues of the City's water and sewer system, as provided in the Ordinance.

PURPOSE OF THE CERTIFICATES

Proceeds from the sale of the Certificates will be used to pay for the cost of (1) construction and acquisition of, and improvements to, City streets, traffic control systems, sidewalks, street lighting and drainage, including the acquisition of land and rights-of-way in connection therewith; (2) the acquisition of vehicles, fire-fighting equipment, radio equipment and other equipment for authorized City purposes; (3) improvements to City sanitary sewer facilities, including the acquisition of land and rights-of-way in connection therewith; (4) improvements to the City's waterworks system, including acquisition of land and rights-of-way in connection therewith; and (5) professional services incurred in connection with items (1) through (4), and to pay the costs incurred in connection with the issuance of the Certificates.

SOURCES AND USES OF PROCEEDS FROM THE CERTIFICATES

Proceeds of the sale of the Certificates will be applied approximately as follows:

Par Amount of the Bonds	\$ 9,650,000.00
Net Premium	346,348.05
Total Sources of Funds	\$ 9,996,348.05
<hr/>	
Deposit to Project Fund	\$ 9,828,490.25
Underwriter's Discount	82,857.80
Costs of Issuance	85,000.00
Total Uses of Funds	\$ 9,996,348.05
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TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City limits its tax rate to \$1.85 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of Texas will permit allocation of \$1.23 of the \$2.50 maximum tax rate for all tax-supported debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 1, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, subject to the right of the City to give a conditional notice of redemption as described in the second paragraph under "NOTICE OF REDEMPTION" below, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION

Not less than thirty (30) days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the Ordinance, the City reserves the right in the case of an optional redemption to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) that the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificates subject to conditional redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE CITY IN THE NOTICE, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE

The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Certificates to pay principal, interest and redemption price thereon in any manner permitted by law. Under current State law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Certificates to maturity or redemption or (ii) by depositing with a trust company or commercial bank within certain limits prescribed by law, amounts sufficient to provide for the payment and/or redemption of the Certificates; provided that such deposits may be invested and reinvested only in (a) direct non-callable 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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Certificates. If any of such Certificates are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Under current State law, 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 or redemption 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, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the 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.

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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, 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 Certificate certificate will be issued for each series and maturity of the Certificates, each in the aggregate principal amount of such series and maturity, and will be deposited with DTC.

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

Purchases of 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 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.

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

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 register and request that copies of the notices be provided directly to them.

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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 the 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 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 the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificated Certificates are required to be printed and delivered to the owner thereof.

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

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, notices that are to be given to registered owners under the Ordinances will be given only to DTC.

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

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of the Certificates is discontinued, printed Certificates will be issued to the DTC Participants or the holder, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "THE CERTIFICATES - TRANSFER, EXCHANGE AND REGISTRATION."

PAYING AGENT/REGISTRAR

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

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new 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 business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" above for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the 15th day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (a "Special Payment Date", which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of an Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

CERTIFICATE-HOLDERS' REMEDIES

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of principal or interest on the Certificates when due, or if the City defaults in the observance or performance of any of the covenants, conditions or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any owner to the City, the Ordinance provides that any owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and, as a result, the availability of such remedy 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 interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 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, owners may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the 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 Certificate owners 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 Certificates are qualified with respect to the customary rights of debtors relative to their creditors and that all opinions relative to the enforceability of the Ordinance and the Certificates are subject to bankruptcy and other laws affecting creditors rights or remedies generally.

AMENDMENT TO THE ORDINANCE

The City may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Ordinance 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 City may, with the consent of registered owners holding a majority in aggregate principal amount of the Certificates, then Outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all registered owners of Outstanding 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 such Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any such Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on any such Certificate, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the aggregate principal amount of Certificates required for consent to any amendment, addition, or waiver.

TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law 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 in the most recent tax year, or (2) 110% of the appraised value of the residence homestead for the preceding tax year plus the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the respective Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

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

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

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.

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

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

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 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children. Notwithstanding the foregoing, 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.

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 part of the market value of such surviving spouse's residences 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.

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods in transit." Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone (see "Tax Increment Financing Zone" below). Other overlapping taxing units may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the zone in excess of the "frozen value" to pay or finance the costs of certain public improvements in the zone. Taxes levied by the City against the values of real property in the zone in excess of the "frozen value" are not available for general city use but are restricted to paying or financing "project costs" within the zone. 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. (See "Tax Abatement Policy" below).

Cities are also 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 grant of public fund 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.

Under Article VIII, Section 1-b(h) and State law, the governing body of a county, municipality, or junior college district may provide that the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older will not be increased above the amount of taxes imposed in the year such residence qualified for such limitation. Also, upon receipt of a petition signed by 5% of the registered voters of the county, municipality or junior college district, an election held to determine by majority vote whether to establish such a limitation on taxes paid on residence homestead of persons 65 years of age or older or of persons who are disabled. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) to a surviving spouse so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax limitation may not be repealed or rescinded.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax 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.

Under the Property Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City’s website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. 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. However, taxes levied for the payment of debt (such as the Obligations) are not subject to rollback.

“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 (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

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

PROPERTY ASSESSMENT AND TAX PAYMENT

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

PENALTIES AND INTEREST

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

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

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer who is 65 years of age or older or is disabled incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law allows for the collection of interest and reasonable (non-punitive) fees, costs or charges on the unpaid balance of delinquent taxes on estates in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy to the extent such fees, or charges, are provided for under the State statute under which such claim arose. The automatic stay prevents governmental units from foreclosing on property unless 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 PROPERTY TAX CODE

The City grants an exemption of \$5,000 to the market value of the residence homestead of persons 65 years of age or older. See “TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT.” The City does not grant an exemption to the market value of the residence homestead of the disabled. The City grants an additional exemption of 10% of the market value of residence homesteads. The City does not tax non-business personal property or “freeport property.” The City does, however, tax “goods-in-transit.” The City does not permit split payments, and discounts are not allowed. The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes. The City has adopted a tax abatement policy as described below.

TAX ABATEMENT POLICY

The City has established industrial and residential tax abatement programs to encourage economic development and single-family housing investment. To be considered for industrial tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Single-family housing projects resulting in property value enhancement via new construction or improvements to existing properties in designated areas may qualify for residential tax abatement. The value of property subject to abatement is shown in “TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT.”

TAX INCREMENT REINVESTMENT ZONES

Article VIII, Section 1-g of the State Constitution and Chapter 311, Texas Tax Code, as amended (the “Act”), authorize municipalities in the State to issue tax increment bonds or notes, payable from the tax increment fund established for a reinvestment zone. In 1982, 1983, and 1986, the City Council adopted separate ordinances which created tax increment reinvestment zones number 1 (“Zone No.1”), 2 (“Zone No.2”) and 3 (“Zone No.3”, and, together with Zone No. 1 and Zone No. 2, collectively referred to as the “Zones”) pursuant to the Act, by designation of contiguous geographic areas in the jurisdiction of the boundaries of the Zones, created a board of directors for each of the Zones, established tax increment funds for each of the Zones, adopted bylaws for each of the Zones and found that public works and improvements to be undertaken in the Zones would significantly enhance the value of all taxable real property in the Zones and would generally benefit the City. Ad valorem tax collections attributable to increases in the value of taxable property in the Zones are restricted to financing improvements in the Zones. The original projected lives of the Zones were 40 years from creation. During Fiscal Year 2013 the City adopted ordinances extending the termination dates for Zone No. 1 from December 31, 2022 to December 31, 2032 and for Zone No. 2 from December 31, 2023 to December 31, 2033.

The City established tax increment funds (the “Funds” or, for Zone No. 1, the “Zone No. 1 Fund”) in the separate ordinances creating the Zones. Each participating taxing unit that levies real property taxes in the Zones provides for the collection of ad valorem taxes on real property in the Zones, as for any other property taxed by the participating taxing unit and pays into the Funds an amount equal to the tax increment produced (the “Tax Increment”), less the sum of ad valorem taxes produced from the Tax Increments that are, by contract executed before the designation of the area as a reinvestment zone, required to be paid by the taxing unit to another political subdivision. The amount of a tax unit’s Tax Increment for a year is the amount of property taxes levied by the taxing unit for that year on the Captured Appraised Value of real property taxable by the taxing unit and located in the Zones. The Captured Appraised Value of real property taxable by a taxing unit for a year is the total appraised value of the property for that year less the tax increment base of the taxing unit, such tax increment base being the total appraised value of all real property taxable by the taxing unit and located in the Zone for the year in which the Zone was established. The Zones have no authority to levy taxes and must look to each taxing unit to levy taxes as indicated above. The taxing units that levy ad valorem taxes in the Zones and participate in the Zones are: the City, McLennan County, Waco Independent School District and McLennan County Junior College District.

The City has previously issued \$4,990,000 of general obligation debt to pay for projects in Zone No. 1, of which \$550,000 remains outstanding. The debt service on this portion of the outstanding debt has been internally allocated by the City as being paid from tax increment revenues in the Zone No. 1 Fund. Revenues in the Zone No. 1 Fund are not pledged to such debt and there is no guarantee that payments from the Zone No. 1 Fund will be made. If payments are not made from the Zone No. 1 Fund, the City would be required to levy ad valorem taxes in amounts sufficient to make such payments.

The Zones were created to encourage physical and economic development along the Brazos River (“Brazos River Corridor”). Two of the three Zones have experienced development activity. Zone No. 1 extends along MLK Jr. Boulevard from Chapel Hill/Gurley Lane to Waco Drive, from MLK Jr. Boulevard along Elm Avenue to Garrison Street and Forrest Street. and from Herring Avenue up to Lake Shore Drive. It comprises most of the urban section of the Brazos River Corridor, venturing down into the Central Business District between IH35 and Waco Drive, then returning toward the river just north of Waco Drive to include 4th Street, Cameron Park and portions of McLennan Community College.

Established in 1982 in anticipation of mixed use development, the Zone No. 1 Fund currently generates approximately \$5,600,000 annually according to the City. Economic development in Zone No. 1 has accelerated due to the consolidation of State offices in the area, the rejuvenation efforts in the downtown area, the construction of new restaurants, a Marriott Residence Inn and a Courtyard Hotel in the convention center area, bicycle and pedestrian trail improvements and improvements to City conference and convention facilities in connection with redevelopment of the Hilton Hotel. Income from Zone No. 1 is currently being used to continue downtown rejuvenation projects, to extend bicycle and pedestrian trails along the Brazos River and to facilitate several commercial and residential development projects in the downtown area and 4th & 5 Streets corridor. In its most extensive project to date, the TIF Zone No. 1 Fund has expended \$8 million out of a total of approximately \$36 million to be invested over a 10-year period to assist with public infrastructure improvements related to the new football stadium at Baylor University. Additional improvements are needed to continue and accelerate growth in the Zone.

Zone No. 2, established in 1983, includes an area along MLK Jr. Boulevard that is adjacent to the northern boundaries of Zone No. 1 along the Brazos River. Some commercial and residential development has occurred in Zone No. 2, which Zone extends along MLK Jr. Boulevard from Waco Drive to Herring Avenue. The moderate income generated by Zone No. 2 has been used to reconstruct a section of MLK Jr. Boulevard, to partially fund the construction of a bicycle and pedestrian trail along the Brazos River and to assist with public infrastructure to facilitate construction of the River Park Apartment Homes on MLK Jr. Boulevard.

Zone No. 3 was established in 1986 in anticipation of commercial, office, residential and recreational development. Zone No. 3 encompasses the northeast intersection of Lake Shore Drive and North 19th Street. No development activity has occurred in Zone No. 3.

When a tax increment reinvestment zone is established, a Board of Directors is appointed by the participating taxing entities to oversee the development of project and financing plans for the zone and to act in an advisory capacity concerning development activity and expenditure of tax increment funds in the zone. The Board for the Zones consists of five members appointed by the City Council and one member appointed by each participating taxing entity (McLennan County, Waco Independent School District and McLennan County Junior College District), for a total of eight members. Recommendations for projects originate with the Board of Directors and go to the City Council for final approval.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2013/2014 Market Valuation Established by McLennan County Appraisal District (excluding totally exempt property)		\$ 7,735,929,887
Less Exemptions/Reductions at 100% Market Value:		
Homestead	\$ 236,377,011	
Over 65 Homesteads	34,946,211	
Disabled Veterans	49,648,220	
Agricultural Land Use/Timber Productivity Loss	63,199,242	
Fiscal Abatements	122,940,729	
Freeport Loss	364,510,233	
Pollution Control	14,492,654	
Limited Value	40,836,625	
Miscellaneous	389,868	927,340,793
2013/2014 Taxable Assessed Valuation		\$ 6,808,589,094
General Obligation Debt (as of 2/1/14) ⁽¹⁾⁽²⁾		
Combination Tax & Revenue Certificates of Obligation	\$ 129,040,000	
General Obligation Bonds	163,080,000	
The Certificates	9,650,000	\$ 301,770,000
City's Self-Supporting General Obligation Debt (as of 2/1/14) ⁽²⁾		
Water System General Obligation Debt	\$ 146,925,000	
Sewer System General Obligation Debt	63,030,000	
Solid Waste System General Obligation Debt	4,695,000	
Tax Increment Zone 1 General Obligation Debt	550,000	\$ 215,200,000
Net General Obligation Debt Payable from Ad Valorem Taxes		\$ 86,570,000
Ratio of Net General Obligation Debt to Taxable Assessed Valuation		1.27%
	2014 Estimated Population - 129,241 ⁽³⁾	
	Per Capita Taxable Assessed Valuation - \$52,681	
	Per Capita Funded Debt - \$670	

(1) In the past several years, the City has sold combination tax and revenue certificates of obligation to finance projects for the City's water system, sewer system, tax increment zones and solid waste system and has internally allocated portions of this debt as payable from the respective enterprise funds or tax increment zone fund. The self-supporting amounts listed above are projections of debt that is expected to be retired by the City based on actual historical payments from these funds to pay for debt service on the outstanding certificates of obligation. **There is no guarantee that payments from these funds will continue in the future.** If payments are not made from such sources in the future, the City will be required to levy ad valorem taxes in amounts sufficient to make such payments. Also, the above schedule of indebtedness does not include \$1,242,000 of special assessment revenue bonds, as such bonds are payable solely from property owner assessments and do not represent a general obligation of the City. See "TABLE 10 – SELF-SUPPORTING DEBT."

(2) Includes the Certificates.

(3) Source: The City.

TABLE 2 – TAXABLE ASSESSED VALUATION BY CATEGORY

Category	Taxable Appraised Value, Fiscal Year Ending September 30					
	2014		2013		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 3,193,078,012	41.28%	\$ 3,145,755,030	41.44%	\$ 2,964,790,976	40.75%
Real, Residential, Multi-Family	552,903,404	7.15%	540,947,926	7.13%	530,246,728	7.29%
Real, Vacant Lots/Tracts/Res Inventory	185,737,380	2.40%	161,765,042	2.13%	159,734,533	2.20%
Real, Acreage (Land Only)	66,466,703	0.86%	73,968,631	0.97%	73,351,221	1.01%
Real, Farm and Ranch Improvements	28,871,288	0.37%	18,486,406	0.24%	19,298,600	0.27%
Real, Commercial and Industrial	1,885,152,286	24.37%	1,839,811,136	24.24%	1,820,432,553	25.02%
Real and Tangible Personal, Utilities	147,349,253	1.90%	140,452,424	1.85%	138,700,708	1.91%
Tangible Personal, Business	1,674,043,041	21.64%	1,667,295,558	21.96%	1,566,759,638	21.53%
Tangible Personal, Other	2,328,520	0.03%	2,236,139	0.03%	2,442,607	0.03%
Total Appraised Value Before Exemptions	\$ 7,735,929,887	100.00%	\$ 7,590,718,292	100.00%	\$ 7,275,757,564	100.00%
Less: Total Exemptions/Reductions	927,340,793		938,850,655		829,201,392	
Taxable Assessed Value	<u>\$ 6,808,589,094</u>		<u>\$ 6,651,867,637</u>		<u>\$ 6,446,556,172</u>	

Category	Taxable Appraised Value, Fiscal Year Ending September 30			
	2011		2010	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 2,899,061,978	41.04%	\$ 2,831,728,139	41.00%
Real, Residential, Multi-Family	527,542,939	7.47%	506,927,890	7.34%
Real, Vacant Lots/Tracts	158,194,756	2.24%	166,731,693	2.41%
Real, Acreage (Land Only)	72,134,192	1.02%	61,537,818	0.89%
Real, Farm and Ranch Improvements	19,050,487	0.27%	18,251,255	0.26%
Real, Commercial and Industrial	1,769,330,218	25.05%	1,712,740,259	24.80%
Real and Tangible Personal, Utilities	142,912,428	2.02%	147,985,807	2.14%
Tangible Personal, Business	1,473,384,230	20.86%	1,458,577,289	21.12%
Tangible Personal, Other	2,054,003	0.03%	2,329,066	0.03%
Total Appraised Value Before Exemptions	\$ 7,063,665,231	100.00%	\$ 6,906,809,216	100.00%
Less: Total Exemptions/Reductions	783,127,564		732,167,475	
Taxable Assessed Value	<u>\$ 6,280,537,667</u>		<u>\$ 6,174,641,741</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the McLennan County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2009	123,650	\$ 6,010,184,387	\$ 48,606	\$ 98,915,554	1.65%	\$ 800
2010	124,805	6,174,641,741	49,474	96,976,624	1.57%	777
2011	125,971	6,280,537,667	49,857	97,700,518	1.56%	776
2012	127,018	6,446,556,172	50,753	93,949,731	1.46%	740
2013	128,125	6,651,867,637	51,917	90,200,143	1.36%	704
2014	129,241	6,808,589,094	52,681	86,570,000 ⁽⁴⁾	1.27% ⁽⁴⁾	670 ⁽⁴⁾

(1) Source: The City.

(2) As reported by the McLennan County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Payable from ad valorem taxes. This number excludes general obligation debt that is self supporting by virtue of payment from airport, water, sewer and solid waste revenues, as well as revenues from any tax increment fund. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "DEBT INFORMATION - TABLE 10 - SELF-SUPPORTING DEBT."

(4) As of February 15, 2014, includes the Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Gross Tax Levy	% Current Collections	% Total Collections
2009	\$ 0.78623	\$ 0.59285	\$ 0.19338	\$ 47,277,952	98.14%	99.03%
2010	0.78623	0.60372	0.18251	48,679,690	97.36%	98.48%
2011	0.78623	0.61124	0.17499	49,125,075	98.50%	99.86%
2012	0.78623	0.61325	0.17298	50,805,022	97.72%	98.76%
2013	0.78623	0.63743	0.14880	49,878,887	98.48%	100.05%
2014	0.77623	0.63919	0.13704	50,184,669	⁽¹⁾	⁽¹⁾

(1) In process of collection.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2013/2014 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Mars Snackfood US LLC ⁽¹⁾	Candy Manufacturer	\$ 103,795,262	1.52%
Coca Cola Company	Soft Drink Bottler	96,860,763	1.42%
L-3 Communications Integrated Systems LP	Aircraft Components Manufacturer	71,799,400	1.05%
Allergan, Inc.	Eye Care Manufacturer	58,204,368	0.85%
Oncor Electric Delivery Co.	Utility	54,429,317	0.80%
Inland Western Waco Central, L.P.	Retail Shopping Center	50,721,180	0.74%
CBL/Richland Mall, L.P.	Retail Shopping Center	41,630,350	0.61%
Caterpillar Logistics Services, Inc.	Parts Warehouse	40,554,157	0.60%
Associated Hygienic Products LLC	Disposable Diaper Manufacturer	39,385,892	0.58%
Sherwin Williams Co. Inc.	Paint Warehouse	33,845,918	0.50%
		<u>\$ 591,226,607</u>	<u>8.68%</u>

(1) Includes Wrigley Manufacturing.

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE CERTIFICATES - TAX RATE LIMITATION").

TABLE 6 - TAX ADEQUACY⁽¹⁾

2014 General Obligation Debt Service Requirements.....	\$ 29,625,506
\$0.4440 Tax Rate at 98% Collection Produces	29,625,533
2014 General Obligation Less Self-Supporting Debt Service Requirements.....	\$ 9,037,586
\$0.1355 Tax Rate at 98% Collection Produces	9,041,125
Average Annual General Obligation Debt Service Requirements (2014-2037).....	\$ 18,469,027
\$0.2768 Tax Rate at 98% Collection Produces	18,469,251
Average Annual General Obligation Less Self-Supporting Debt Service Requirements (2014-2037).....	\$ 6,159,093
\$0.0924 Tax Rate at 98% Collection Produces	6,165,314
Maximum Annual General Obligation Debt Service Requirements (2014).....	\$ 29,625,506
\$0.4440 Tax Rate at 98% Collection Produces	29,625,533
Maximum Annual General Obligation Less Self-Supporting Debt Service Requirements (2015).....	\$ 9,117,192
\$0.1367 Tax Rate at 98% Collection Produces	9,121,194

(1) Includes the Certificates. See "TAX INFORMATION - TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "TAX INFORMATION - TABLE 10 - SELF-SUPPORTING DEBT."

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

	2012/2013 Taxable Assessed Value	2012/2013 Tax Rate	Total G.O. Debt ⁽²⁾	Estimated % Applicable	City's Overlapping Net G.O. Debt
City of Waco	\$ 6,808,589,094 ⁽¹⁾	\$ 0.776232 ⁽¹⁾	\$ 86,570,000 ⁽³⁾	100.00%	\$ 86,570,000
Bosqueville ISD	134,181,853	1.545300	10,662,270	72.98%	7,781,325
China Spring ISD	558,819,474	1.540000	59,784,000	37.32%	22,311,389
Connally ISD	531,652,738	1.269100	29,780,500	18.92%	5,634,471
La Vega ISD	625,929,549	1.420000	64,883,489	34.40%	22,319,920
Lorena ISD	372,061,072	1.620000	42,909,998	1.97%	845,327
McGregor ISD	290,502,510	1.185000	28,354,464	0.08%	22,684
McLennan County	11,696,631,233	0.484300	33,950,000	56.87%	19,307,365
McLennan Co. Jr. College Dist.	12,399,825,505	0.153900	101,405,000	56.87%	57,669,024
Midway ISD	3,810,275,773	1.320000	124,960,848	50.62%	63,255,181
Waco ISD	4,037,438,694	1.355200	221,840,000	92.32%	204,802,688
Total Direct and Overlapping Tax Funded Debt					\$ 490,519,373
Ratio of Direct and Overlapping Tax Funded Debt to Taxable Assessed Valuation					7.20%
Per Capita Overlapping Tax Funded Debt					\$ 3,795

(1) 2013/2014 Taxable Assessed Value and Tax Rate.

(2) Total General Obligation Debt as of October 31, 2013.

(3) Includes the Certificates. See "TAX INFORMATION - TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "DEBT INFORMATION - TABLE 10 - SELF-SUPPORTING DEBT."

DEBT INFORMATION

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Year End 9/30	Outstanding	Plus: The Certificates			Total	Less:	Net General	% of
	General				General	Existing Self-	Obligation	Total
	Obligation Debt Service ⁽¹⁾⁽²⁾	Principal	Interest	Total	Obligation Debt Service	Supporting Debt Service ⁽¹⁾⁽²⁾	Debt Service ⁽¹⁾⁽²⁾	Principal Retired
2014	\$ 29,625,506				\$ 29,625,506	\$ 20,587,920	\$ 9,037,586	
2015	28,951,761	\$ 250,000	\$ 422,241	\$ 672,241	29,624,003	20,506,810	9,117,192	
2016	28,561,176	385,000	284,075	669,075	29,230,251	20,169,894	9,060,357	
2017	28,660,803	395,000	276,275	671,275	29,332,078	20,257,944	9,074,134	
2018	27,982,106	405,000	268,275	673,275	28,655,381	19,586,469	9,068,912	27.99%
2019	27,597,393	410,000	260,125	670,125	28,267,518	19,677,274	8,590,244	
2020	27,562,360	420,000	251,825	671,825	28,234,185	19,632,841	8,601,344	
2021	26,684,419	430,000	243,325	673,325	27,357,744	18,701,164	8,656,579	
2022	24,578,456	440,000	232,425	672,425	25,250,881	17,040,376	8,210,505	
2023	23,261,238	450,000	219,075	669,075	23,930,313	16,007,936	7,922,376	57.61%
2024	23,070,593	465,000	205,350	670,350	23,740,943	16,028,045	7,712,897	
2025	20,440,422	480,000	191,175	671,175	21,111,597	13,594,322	7,517,275	
2026	17,861,766	495,000	176,550	671,550	18,533,316	11,257,527	7,275,789	
2027	17,370,978	510,000	161,475	671,475	18,042,453	11,033,196	7,009,257	
2028	12,330,488	525,000	145,950	670,950	13,001,438	11,308,026	1,693,411	81.06%
2029	11,276,386	545,000	128,538	673,538	11,949,924	10,540,404	1,409,519	
2030	11,280,447	560,000	109,200	669,200	11,949,647	10,540,272	1,409,375	
2031	9,815,717	585,000	87,700	672,700	10,488,417	9,438,947	1,049,470	
2032	9,262,481	610,000	63,800	673,800	9,936,281	9,439,581	496,700	
2033	6,625,541	630,000	39,000	669,000	7,294,541	7,025,597	268,944	94.83%
2034	5,498,547	660,000	13,200	673,200	6,171,747	6,059,547	112,200	
2035	5,334,853				5,334,853	5,334,853	-	
2036	4,456,256				4,456,256	4,456,256	-	
2037	1,737,375				1,737,375	1,737,375	-	100.00%
	<u>\$ 429,827,066</u>	<u>\$ 9,650,000</u>	<u>\$ 3,779,579</u>	<u>\$ 13,429,579</u>	<u>\$ 443,256,645</u>	<u>\$ 319,962,578</u>	<u>\$ 123,294,067</u>	

(1) Outstanding Debt does not include lease/purchase obligations. See “DEBT INFORMATION – OTHER OBLIGATIONS.”

(2) See “TAX INFORMATION – TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT” and the accompanying footnotes and “DEBT INFORMATION - TABLE 10 – SELF-SUPPORTING DEBT.”

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2014 ⁽¹⁾	\$ 9,037,586
Interest and Sinking Fund as of 9/30/2013	\$ 233,889
Calculated Interest and Sinking Fund Tax Levy @ 98% Collection	9,143,947
Estimated Investment Income	<u>1,370</u>
Estimated Balance, 9/30/2014	<u>\$ 341,621</u>

(1) Includes the Certificates and excludes self-supporting debt.

TABLE 10 – SELF-SUPPORTING DEBT

Fiscal Year 9/30	Water System ⁽¹⁾⁽²⁾	Sewer System ⁽¹⁾⁽²⁾	Solid Waste System ⁽¹⁾	Tax Increment Reinvestment Zone ⁽¹⁾	Total Self-Supporting Debt Service ⁽¹⁾⁽²⁾
2014	\$ 12,750,812	\$ 6,592,427	\$ 1,155,950	\$ 88,731	\$ 20,587,920
2015	13,407,253	6,139,001	869,525	91,031	20,506,810
2016	13,338,753	6,113,260	629,650	88,231	20,169,894
2017	13,386,984	6,148,854	631,775	90,331	20,257,944
2018	12,743,571	6,117,516	633,150	92,231	19,586,469
2019	12,805,306	6,144,668	638,319	88,981	19,677,274
2020	12,781,694	6,124,551	636,019	90,578	19,632,841
2021	12,275,313	5,697,789	636,150	91,913	18,701,164
2022	11,581,499	5,147,503	311,375	-	17,040,376
2023	10,979,298	4,721,264	307,375	-	16,007,936
2024	10,990,808	4,724,613	312,625	-	16,028,045
2025	9,630,358	3,963,964	-	-	13,594,322
2026	7,620,609	3,636,918	-	-	11,257,527
2027	7,655,326	3,377,870	-	-	11,033,196
2028	7,801,439	3,506,588	-	-	11,308,026
2029	7,152,229	3,388,175	-	-	10,540,404
2030	7,152,409	3,387,863	-	-	10,540,272
2031	6,271,722	3,167,225	-	-	9,438,947
2032	6,270,956	3,168,625	-	-	9,439,581
2033	6,266,284	759,313	-	-	7,025,597
2034	5,646,447	413,100	-	-	6,059,547
2035	5,334,853	-	-	-	5,334,853
2036	4,456,256	-	-	-	4,456,256
2037	1,737,375	-	-	-	1,737,375
	<u>\$ 220,037,553</u>	<u>\$ 92,441,084</u>	<u>\$ 6,761,913</u>	<u>\$ 722,028</u>	<u>\$ 319,962,578</u>

- (1) In the past several years, the City has sold combination tax and revenue certificates of obligation to finance projects for the City’s water system, sewer system, airport system, tax increment zones and solid waste system and has internally allocated portions of this debt as payable from the respective enterprise funds or tax increment zone fund. The self-supporting amounts listed above are projections of debt that is expected to be retired by the City based on actual historical payments from these funds to pay for debt service on the outstanding certificates of obligation. **There is no guarantee that payments from these funds will continue in the future.** If payments are not made from such sources in the future, the City will be required to levy ad valorem taxes in amounts sufficient to make such payments. Also, the above schedule of indebtedness does not include \$1,242,000 of special assessment revenue bonds, as such bonds are payable solely from property owner assessments and do not represent a general obligation of the City.
- (2) Includes a portion of the Certificates.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS... The City has no authorized but unissued general obligation bonds.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT. . . The City does not anticipate the issuance of additional general obligation debt within the next 12 months. See “FINANCIAL INFORMATION – CAPITAL IMPROVEMENT PROGRAM” for information regarding the City’s financing program for capital improvements.

OTHER OBLIGATIONS... The City has entered into an agreement with the City of West, Texas, to supply water to the City of West for 40 years pursuant to an agreed-upon rate structure. As part of the agreement, the City purchased a pump station and water transmission line from the City of West for \$12,814 monthly for 18 years and \$6,632 monthly for 22 years. Interest is imputed at 4.35% over the term of the agreement.

Fiscal Year Ending 9/30	Principal	Interest	Annual Payment
2014	\$ 69,469	\$ 84,293	\$ 153,762
2015	72,555	81,208	153,763
2016	75,777	77,986	153,763
2017	79,142	74,620	153,762
2018	82,657	71,105	153,762
2019-2023	465,539	297,090	762,629
2024-2028	171,169	226,741	397,910
2029-2033	212,708	185,202	397,910
2034-2038	264,328	133,582	397,910
2039-2043	328,475	69,435	397,910
2044-2045	146,087	6,445	152,532
	<u>\$ 1,967,906</u>	<u>\$ 1,307,707</u>	<u>\$ 3,275,613</u>

The City has the following outstanding lease/purchase obligations at this time that are supported by General Fund Revenues. The assets acquired are computer equipment and software.

Fiscal Year Ending 9/30	Minimum Annual Payment
2014	\$ 49,938
2015	12,485
Total Minimum Lease Payment	\$ 62,423
Amount Representing Interest	815
Present Value of Minimum Lease Payments	<u>\$ 61,608</u>

PENSION FUND. . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see “APPENDIX B- EXCERPTS FROM THE CITY OF WACO, TEXAS ANNUAL FINANCIAL REPORT” - Note IV, L.)

During 2009 TMRS changed certain actuarial assumptions. These changes impacted the City’s pension contribution rate. Consequently, the City elected to fund contributions through an eight year phase-in period resulting in an \$11.6 million of net pension obligation as of September 30, 2012. This net pension obligation is \$11.7 million as of September 30, 2013.

During the FY2012 budget process, the City worked with TMRS to evaluate plan provisions. As a result, the City council voted to eliminate automatic annually repeating annuity increases for retirees in favor of considering future annuity increases on an ad hoc basis. This plan provision change reduced the January 2012 contribution from a 20.07% phase-in rate (22.24% full rate) to a 14.04% full rate. In addition to the fund restructuring of TMRS as approved by Senate Bill 350, retirement and benefits legislation adopted by the Texas Legislature in 2011, this City plan provision change increased the City’s funded ratio from 55.6% to 86.5%. The City’s full rate effective January 2013 was 13.87% and the City’s funded ratio has continued to increase to 88.6%.

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to pension benefits, the City provides certain other post-employment benefits for retired employees (“OPEB”). The costs of these benefits are recognized as expenditures based on the annual required contribution of the employer. (For more detailed information concerning OPEB, see “APPENDIX B- EXCERPTS FROM THE CITY OF WACO, TEXAS ANNUAL FINANCIAL REPORT” – Note IV, K.)

Life Insurance Benefits: The City provides postretirement life insurance benefits for certain eligible retirees. According to City's personnel policy, retirees who have retired under the Texas Municipal Retirement System with a minimum of 20 years of service are eligible for postretirement life insurance benefits. The City pays 100 percent of the premiums of life insurance coverage for the eligible retirees. An optional \$5,000 of life insurance coverage is available at the retirees' expense. At September 30, 2013, there were 559 employees who had retired and were receiving benefits. The City finances the plan on a pay-as-you-go basis. Life insurance benefits amounted to \$21,592 for 2013.

Health Insurance Benefits: Eligible City retirees may elect upon retirement to participate, at the retirees' sole expense, in the City's self-insured health insurance plan. If retirees do not elect to participate in the City-sponsored health insurance plan at the time they retire or if they terminate their participation in the plans after retirement they may not later rejoin any of the plans. The City pays no portion of the retiree health insurance premiums. Current retiree health insurance premiums have been determined and set independently of premiums for active employees at levels intended to cover the full cost of retiree health insurance benefits. As of September 2013, there were 30 retirees participating in the City's self-insured health insurance plan.

FINANCIAL INFORMATION

TABLE 11 – GOVERNMENTAL ACTIVITIES: CHANGE IN NET POSITION

	For Fiscal Year Ended September 30					
	2013		2012		2011	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Revenues:						
Program Revenues:						
Charges for Services	\$ 6,259,382	\$ 88,204,469	\$ 5,624,765	\$ 85,531,254	\$ 6,424,471	\$ 89,273,791
Operating Grants and Contributions	11,616,774	3,430,713	11,640,290	3,415,770	9,720,348	3,514,732
Capital Grants and Contributions	7,256,153	4,754,594	6,883,729	3,786,143	6,061,358	4,014,798
General Revenues:						
Ad valorem Taxes	57,100,563	-	54,377,202	-	53,047,698	-
Sales Taxes	31,075,760	-	29,186,254	-	28,003,416	-
Franchise Taxes	13,286,438	-	13,682,123	-	13,587,114	-
Hotel/Motel Taxes	-	2,095,987	-	1,897,865	-	1,754,730
Other Taxes	704,355	-	650,815	-	679,232	-
Investment Earnings	308,603	159,463	360,561	196,566	481,791	183,254
Miscellaneous	2,298,062	-	882,450	-	678,741	-
Gain on sale of capital assets	290,376	-	1,730,200	-	-	-
Total Revenues	<u>\$ 130,196,466</u>	<u>\$ 98,645,226</u>	<u>\$ 125,018,389</u>	<u>\$ 94,827,598</u>	<u>\$ 118,684,169</u>	<u>\$ 98,741,305</u>
Expenses:						
General Government	20,039,649	-	\$ 14,177,640	\$ -	\$ 12,378,019	\$ -
Public Works	13,699,976	-	11,844,356	-	13,227,404	-
Public Safety	62,592,351	-	57,664,131	-	61,291,317	-
Culture and Recreation	16,544,389	-	15,694,840	-	15,636,875	-
Public Health	7,388,363	-	7,184,384	-	7,417,771	-
Housing & Community Development	2,435,924	-	3,664,525	-	3,339,613	-
Interest on Long-Term Debt	3,873,202	-	4,098,714	-	4,313,467	-
Water	-	32,916,500	-	33,311,059	-	34,186,629
Wastewater	-	18,388,139	-	17,634,339	-	17,522,331
Solid Waste	-	16,025,259	-	15,854,254	-	16,201,178
Airport	-	3,083,925	-	2,937,967	-	2,503,823
Convention Services	-	3,941,005	-	3,372,280	-	2,861,523
Ranger Hall of Fame	-	1,343,575	-	1,209,145	-	1,193,004
Cameron Park Zoo	-	4,318,267	-	4,396,640	-	4,315,032
Transit Services	-	8,026,608	-	7,970,314	-	7,904,160
Cottonwood Creek Golf Course	-	1,782,963	-	1,864,426	-	1,691,790
Total Expenditures	<u>\$ 126,573,854</u>	<u>\$ 89,826,241</u>	<u>\$ 114,328,590</u>	<u>\$ 88,550,424</u>	<u>\$ 117,604,466</u>	<u>\$ 88,379,470</u>
Increases in net position before transfers	\$ 3,622,612	\$ 8,818,985	\$ 10,689,799	\$ 6,277,174	\$ 1,079,703	\$ 10,361,835
Transfers	\$ 81,051	\$ (81,051)	\$ (2,555,596)	\$ 2,555,596	\$ (5,848,585)	\$ 5,848,585
Net Position - October 1	<u>225,017,495</u>	<u>268,544,752</u>	<u>216,883,292</u>	<u>259,711,982</u>	<u>221,652,174</u>	<u>243,501,562</u>
Net Position - September 30	<u>\$ 228,721,158</u>	<u>\$ 277,282,686</u>	<u>\$ 225,017,495</u>	<u>\$ 268,544,752</u>	<u>\$ 216,883,292</u>	<u>\$ 259,711,982</u>

TABLE 11A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	For Fiscal Year Ended September 30				
	2013	2012	2011	2010 ⁽¹⁾	2009
Revenues:					
Taxes	\$ 72,988,945	\$ 67,712,642	\$ 65,587,020	\$ 63,645,465	\$ 62,618,808
Business and Occupation Fees	13,286,438	13,682,123	13,587,115	13,338,717	13,663,140
Permits, Licenses and Fees	1,170,932	930,770	789,302	992,627	963,705
Fines	1,807,306	1,565,721	1,729,398	1,950,230	2,079,910
Charges for Services	1,643,861	1,501,983	1,779,213	1,751,702	1,545,120
Investment Earnings	107,101	121,240	119,659	161,497	560,218
Contributions	315,363	219,577	310,827	239,964	126,215
Intergovernmental	1,568,064	1,497,372	1,390,686	1,553,028	1,519,830
Program Income	-	-	-	450,000	-
Other	9,888,023	8,533,937	8,099,146	7,748,423	7,175,507
Total Revenues	<u>\$ 102,776,033</u>	<u>\$ 95,765,365</u>	<u>\$ 93,392,366</u>	<u>\$ 91,831,653</u>	<u>\$ 90,252,453</u>
Expenditures:					
Current:					
General Government	\$ 16,189,167	\$ 16,953,812	\$ 15,550,216	\$ 16,204,299	\$ 14,986,511
Public Works	3,214,854	1,863,173	1,791,523	2,235,645	1,969,524
Public Safety	57,762,483	53,938,989	54,524,611	55,583,806	53,435,407
Culture and Recreation	11,946,865	14,503,772	12,438,048	12,742,857	13,019,382
Housing and Community Development	177,536	133,033	128,659	139,921	557,412
Total Expenditures	<u>\$ 89,290,905</u>	<u>\$ 87,392,779</u>	<u>\$ 84,433,057</u>	<u>\$ 86,906,528</u>	<u>\$ 83,968,236</u>
Excess of Revenues Over Expenditures	\$ 13,485,128	\$ 8,372,586	\$ 8,959,309	\$ 4,925,125	\$ 6,284,217
Other Financing Sources (Uses):					
Proceeds from Sale of Capital Assets	\$ 290,376	\$ 1,790,086	\$ 123,833	\$ -	\$ -
Transfers In	4,634,431	4,161,057	3,951,595	3,701,141	3,565,822
Transfers Out	(10,627,147)	(11,396,117)	(9,555,910)	(9,235,613)	(11,220,467)
Total Other Financing Sources (Uses)	<u>\$ (5,702,340)</u>	<u>\$ (5,444,975)</u>	<u>\$ (5,480,482)</u>	<u>\$ (5,534,472)</u>	<u>\$ (7,654,645)</u>
Net Change in Fund Balance	\$ 7,782,788	\$ 2,927,611	\$ 3,478,827	\$ (609,347)	\$ (1,370,428)
Fund Balance, Beginning of Year	\$ 37,648,188	\$ 34,720,577	\$ 31,241,750	\$ 31,851,097	\$ 24,635,803
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ -	\$ 274,482 ⁽²⁾
Fund Balance, End of Year	<u>\$ 45,430,976</u>	<u>\$ 37,648,188</u>	<u>\$ 34,720,577</u>	<u>\$ 31,241,750</u>	<u>\$ 23,539,857</u>

(1) Restated pursuant to GASB Statement No. 54.

(2) Prior period adjustment was to record inventory previously expensed when purchased.

TABLE 12 – ENTERPRISE FUNDS: NET REVENUES AVAILABLE FOR DEBT SERVICE

	Water and Wastewater System	Solid Waste System	Tax Increment Financing Zone
Revenues as of 9/30/2013	\$ 62,795,257	\$ 16,511,102	7,172,597
Expenditures as of 9/30/2013 (Excluding Depreciation)	34,036,064	12,244,101	10,641,563
Net Revenues Available for Debt Service, 9/30/2013	\$ 28,759,193	\$ 4,267,001	\$ (3,468,966) ⁽¹⁾
Estimated 2014 Debt Service Allocable to System or Tax Increment Zone Fund	\$ 19,343,239 ⁽²⁾	\$ 1,155,950 ⁽²⁾	\$ 88,731

(1) Includes the scheduled \$5 million draw on fund balance for the Baylor University stadium project. Fund balance at year end totaled \$9,272,122 after the draw, as provided by the City.

(2) Includes a portion of the Certificates.

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Tax Code, V.T.C.A which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas (the "Comptroller"), who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On August 8, 1987, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%), which tax is in effect until the voters repeal it.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽¹⁾
2009	\$ 27,714,013	58.62%	\$ 0.46	\$ 224
2010	27,318,396	56.12%	0.44	219
2011	28,003,416	57.00%	0.45	222
2012	29,186,254	57.45%	0.45	230
2013	31,075,760	62.30%	0.49	243

(1) Based on estimated population as shown in "TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY."

CAPITAL IMPROVEMENT PROGRAM

The City's Capital Improvement Program calls for the following bond issuance schedule.

Fiscal Year Ending 9/30	General Obligation	Water System	Wastewater System	Total
2014	\$ 1,690,058	\$ 2,150,913	\$ 6,095,000	\$ 9,935,971 ⁽¹⁾
2015	1,748,845	10,450,000	40,669,326	52,868,171
2016	1,855,044	12,890,000	5,450,000	20,195,044
2017	1,950,835	10,230,000	6,680,000	18,860,835
2018	2,120,261	6,970,000	430,000	9,520,261
	<u>\$ 9,365,043</u>	<u>\$ 42,690,913</u>	<u>\$ 59,324,326</u>	<u>\$ 111,380,282</u>

(1) Included in the Certificates.

WATERWORKS AND SEWER SYSTEM

THE FOLLOWING INFORMATION IS PROVIDED BECAUSE IN RECENT HISTORY, THE CITY HAS BEEN PAYING DEBT SERVICE ON A PORTION OF ITS OUTSTANDING GENERAL OBLIGATION TAX DEBT WITH REVENUES FROM ITS WATER AND SEWER SYSTEM AND BECAUSE THE CERTIFICATES ARE SECURED BY A LIMITED PLEDGE, NOT TO EXCEED \$1,000 OF THE SURPLUS REVENUES OF THE CITY'S WATER AND SEWER SYSTEM. ALTHOUGH THE CITY CURRENTLY MAKES USE OF WATER AND SEWER SYSTEM REVENUE TO PAY CERTAIN OF ITS INDEBTEDNESS, THERE IS NO PLEDGE OF SUCH REVENUES TO SECURE THE OBLIGATIONS EXCEPT FOR THE LIMITED \$1,000 PLEDGE SECURING THE CERTIFICATES. SEE "THE OBLIGATIONS – SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES" AND "TABLE 10 – SELF-SUPPORTING DEBT."

WATER SYSTEM

The City obtains a large preponderance of its domestic and industrial surface water supply from the Lake Waco reservoir. Lake Waco was constructed by the United States Army Corps of Engineers to provide flood control and water conservation storage. Construction started in June 1958, and deliberate impoundment began in February 1965. The lake inundated the old Lake Waco which was built in 1929 about 3,000 feet upstream from the new dam. The City received 13,026 acre-feet of priority storage rights in the new lake in exchange for the like amount of storage capacity of the old lake. In 1958, with initiation of construction of the new lake, the City contracted with the Brazos River Authority (the "BRA"), the official agent for the State in the project, for purchase of the remaining 104,100 acre-feet of water supply storage in Lake Waco.

In order to expand its water supply, in 1998, the City authorized the United States Army Corps of Engineers, through BRA, to raise the conservation level of Lake Waco by seven (7) feet. The project was completed in 2005. Deliberate impoundment for the pool raise began September 1, 2003. This pool raise action has increased the City's diversion right from 59,100 acre-feet to 79,100 acre-feet annually.

In addition to Lake Waco water rights, the City has a permit, dated June 29, 1914, to withdraw up to 5,600 acre-feet annually from the Brazos River for municipal purposes.

The City's water treatment facilities currently consist of a dissolved air flotation pretreatment plant and two treatment plants with an aggregate design per day. Treated water storage capacity totals 25.145 million gallons. Average daily water sold during 2013 was 26.54 million gallons per day ("mgd"), while average daily water treated was 28.92 mgd.

WASTEWATER TREATMENT

In 1968, the City entered into a contract with the BRA, which provided for BRA to establish a regional wastewater treatment system, the Waco Metropolitan Area Regional Sewer System ("WMARSS"), and to adequately receive, transport, treat and dispose of the City's wastewater.

During 2004, the City of Waco entered into an interlocal cooperation agreement (the "Agreement") with the surrounding cities of Bellmead, Woodway, Robinson, and Lacy Lakeview to acquire the WMARSS from the BRA. The participating cities each purchased undivided ownership interests in the WMARSS. Subsequent to the original purchase, the City of Hewitt exercised an option to purchase a portion of Waco's undivided interest. Additionally, the City of Lorena has purchased a portion of the undivided interest of each of the other participating cities. Waco currently owns a 75.27% undivided interest in the WMARSS.

Under the Agreement, a board was created to oversee the operation and administration of the WMARSS. Pursuant to a separate interlocal agreement, the City of Waco was designated the entity to manage and operate the WMARSS. Each participant pays a proportionate share of the operation and maintenance costs of the WMARSS based on the ratio of each city's flows to the sum of the flows of all cities. Waco was allocated 80.2% of the WMARSS operation and maintenance costs for 2012 and 82.152% for 2013. For 2014, Waco is being allocated 82.687% of such costs.

MONTHLY WATER RATE (EFFECTIVE: OCTOBER 1, 2010)

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
<u>Residential</u>		
Residential Water Base Rate	\$15.00 minimum	\$17.40 minimum
0 to 15,000 gallons	\$2.54 per 1,000 gallons	\$2.92 per 1,000 gallons
15,001 to 25,000 gallons	\$2.98 per 1,000 gallons	\$3.43 per 1,000 gallons
Over 25,000 gallons	\$3.82 per 1,000 gallons	\$4.40 per 1,000 gallons
<u>Residential Demand Rates</u>		
5/8" meter	\$15.00	\$17.40
1" meter	\$24.24	\$28.03
1.5" meter	\$34.90	\$40.28
2" meter	\$48.10	\$55.47
3" meter	\$75.94	\$87.48
<u>Irrigation Meters</u>		
5/8" meter	\$15.00 minimum	\$17.40 minimum
1" meter	\$41.58 minimum	\$47.97 minimum
1.5" meter	\$74.62 minimum	\$85.96 minimum
2" meter	\$114.24 minimum	\$131.52 minimum
3" meter	\$197.84 minimum	\$227.67 minimum
4" meter	\$289.15 minimum	\$332.67 minimum
6" meter	\$434.98 minimum	\$500.37 minimum
8" meter	\$613.92 minimum	\$706.15 minimum
10" meter	\$939.46 minimum	\$1,080.53 minimum
Irrigation from 0 to 25,000 gallons	\$2.98 per 1,000 gallons	\$3.53 per 1,000 gallons
Irrigation over 25,000 gallons	\$3.82 per 1,000 gallons	\$4.50 per 1,000 gallons
Commercial/Industrial classes	\$2.68 per 1,000 gallons	\$3.08 per 1,000 gallons
Pretreated irrigation – all classes	\$1.33 per 1,000 gallons	\$1.67 per 1,000 gallons

MONTHLY WASTEWATER RATE (EFFECTIVE: OCTOBER 1, 2010)

Rates for residences are computed taking the average of the actual water consumption for the months of November, December, January and February, up to 20,000 gallons. New residences that did not have adequate consumption statistics during such months and new turn-ons are given an average consumption of 6,000 gallons. The monthly service charge is then based on the lesser of the foregoing consumption determination or actual water meter consumption.

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
<u>Residential</u>		
Base Rate	\$13.00 minimum	\$16.79 minimum
Volumetric Rate	\$2.89 per 1,000 gallons	\$4.70 per 1,000 gallons
<u>Non-residential</u>		
3/4" meter	\$13.00 minimum	\$16.79 minimum
1" meter	\$18.85 minimum	\$24.19 minimum
1.5" meter	\$28.63 minimum	\$36.52 minimum
2" meter	\$40.36 minimum	\$51.31 minimum
3" meter	\$55.99 minimum	\$74.04 minimum
4" meter	\$71.64 minimum	\$90.77 minimum
6" meter	\$106.81 minimum	\$135.17 minimum
8" meter	\$165.45 minimum	\$209.15 minimum
10" meter	\$207.19 minimum	\$238.49 minimum
Volumetric Rate	\$2.89 per 1,000 gallons	\$4.70 per 1,000 gallons

TABLE 14 – CONDENSED SUMMARY OF OPERATIONS

	For Fiscal Year Ended September 30				
	2013	2012	2011	2010	2009
Revenues:					
Sale of Water	\$ 33,343,542	\$ 32,851,950	\$ 35,926,905	\$ 28,648,036	\$ 30,799,182
Sewer Service Charges	21,315,894	21,105,345	21,282,773	19,180,493	19,648,956
Interest Income	134,266	164,210	151,942	208,062	824,517
Other	8,001,555	6,611,663	7,750,316	6,761,184	6,078,032
Total Revenues	\$ 62,795,257	\$ 60,733,168	\$ 65,111,936	\$ 54,797,775	\$ 57,350,687
Expenditures:					
Water Purchased	\$ 458,843	\$ 625,074	\$ 671,788	\$ 541,875	\$ 754,421
Sewage Disposal Contract	5,190,960	4,920,012	4,602,911	4,499,220	4,389,576
Water Treatment	7,745,815	7,526,468	7,867,893	7,812,074	7,254,241
Water Distribution	4,711,827	4,266,130	4,543,047	4,869,173	4,270,943
Water Other	9,153,031	8,897,251	9,117,298	8,606,668	8,426,866
Sewer Other	6,775,588	6,860,883	7,227,397	8,273,783	8,042,122
Total Expenditures	\$ 34,036,064	\$ 33,095,818	\$ 34,030,334	\$ 34,602,793	\$ 33,138,169
Net Revenue Available for					
Debt Service	\$ 28,759,193	\$ 27,637,350	\$ 31,081,602	\$ 20,194,982	\$ 24,212,518
Average Water Meters Served	44,370	43,297	43,083	42,750	42,391

FINANCIAL POLICIES

Basis of Accounting. . . The accounts of the City are organized on the basis of funds, each of which constitutes a separate entity for accounting purposes. The most significant of these funds is the General Fund, which accounts for all revenues and expenditures of the City not accounted for in the various enterprise funds or the other funds maintained by the City. Other than ad valorem taxes, the primary sources of General Fund revenue include sales and use taxes, business and occupation fees, and miscellaneous sources, such as fines, penalties, licenses, fees, interest income from investments and other taxes. The enterprise funds consist of the Water Fund, the Wastewater Fund, the Solid Waste Fund, the Airport Fund, the Convention Services Fund, the Ranger Hall of Fame Fund, the Cameron Park Zoo Fund, the Transit Services Fund and the Cottonwood Creek Golf Course Fund (collectively, the “Enterprise Funds”). The methods of accruing revenues and expenditures differ between the General Fund and Enterprise Funds. For a description of the accrual methods and the reporting entity definition, see “APPENDIX B - EXCERPTS FROM THE CITY OF WACO, TEXAS ANNUAL FINANCIAL REPORT” - Note I.

The City also provides government-wide financial statements prepared using the full accrual method of accounting pursuant to its adoption in 2002 of Governmental Accounting Standards Board Statement 34. The City utilizes the depreciation method of accounting for depreciable assets, including infrastructure.

General Fund Balance. . . The General Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The City’s Financial Management Policy Statement for the General Fund has a goal for the unassigned General Fund balance to be at least 18% of current year budgeted revenues. The City’s final adopted budget for Fiscal Year 2013 lists General Fund expenditures of \$104,901,023, compared with budgeted revenues of \$101,959,115, resulting in the anticipated General Fund balance of approximately \$34,706,280. Actual operations for Fiscal Year 2013 resulted in a fund balance of \$45,430,976 at September 30, 2013. Of this amount, \$19,604,248 (19.0% of FY 2014 budgeted revenues) is unassigned.

Debt Service Fund Balance. . . The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds. The City’s adopted budget for Fiscal Year 2014 lists Debt Service Fund expenditures of \$9,129,520 compared with budgeted revenues of \$9,037,975, resulting in the anticipated Debt Service Fund balance of approximately \$25,513. Actual operations for Fiscal Year 2013 resulted in a fund balance of \$233,889 at September 30, 2013.

Water Fund. . . The City’s Financial Management Policy Statement for water has a goal to strive to maintain a positive retained earnings position to provide sufficient reserves for emergencies and revenue shortfalls. In addition, the minimum working capital shall be 30 percent of annual revenue. The working capital balance at September 30, 2013 of \$26,879,364 was 65.7% of annual revenue.

Wastewater Fund. . . The City’s Financial Management Policy Statement for wastewater has a goal to strive to maintain a positive retained earnings position to provide sufficient reserves for emergencies and revenue shortfalls. In addition, the minimum working capital shall be 30 percent of annual revenue. The working capital balance at September 30, 2013 of \$15,052,880 was 68.8% of annual revenue.

Solid Waste Fund. . . The City's Financial Management Policy Statement for solid waste has a goal to strive to maintain a positive retained earnings position to provide sufficient reserves for emergencies and revenue shortfalls. In addition, the minimum working capital shall be 30 percent of annual revenue. The working capital balance at September 30, 2013 of \$11,856,126 was 71.8% of annual revenue.

Budgetary Procedures . . . Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund, health fund and debt service funds (except for the street and drainage refundable contracts fund). All annual appropriations lapse at fiscal year-end. Also, project-length financial plans are adopted for all capital projects funds and the grant fund.

Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance.

Expenditures may not legally exceed appropriations at the fund level for each legally adopted annual operating budget. The City Manager may, without Council approval, transfer appropriation balances from one expenditure account to another within a department or agency of the City. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one department or agency to another. The reported budgetary data has been revised for amendments legally authorized during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (*e.g.*, purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

INVESTMENTS

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

LEGAL INVESTMENTS

Under State law, the City 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 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 of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit (i) issued by a depository institution that has its main office or a branch office in the State, that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, or are secured by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a depository institution that has its main office or branch office in the State and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) above and are placed through a primary government securities dealer or a financial institution doing business in the State, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank, (11) no-load money market mutual funds regulated by the 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, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invests exclusively in obligations described in the preceding clauses 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; provided, however, that the City is not authorized to invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in such no-load mutual funds, and (13) for bond proceeds, guaranteed investment contracts that have a defined termination date, are secured by obligations including letter of credit of the United States or its agencies and instrumentalities in an amount at least equal to the amount invested under the contract, and are pledged to the City and deposited with the City or with a third party selected and approved by the City; provided, however, that bond proceeds, excluding reserves and other funds held for debt service, are not invested in guaranteed investment contracts with a term of more than five years and are authorized as eligible investments by the City Council.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. The City 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.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than “A” or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (13) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body and held in the name of the governmental body; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

INVESTMENT POLICIES

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (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 City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers’ with personal business relationships or 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; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

THE CITY’S INVESTMENT POLICY

The Director of Finance will promptly invest all City funds with the Bank Depository in accordance with the provisions of the current Bank Depository Agreement or in any negotiable instrument that the Council has authorized under the provisions of Chapter 2256, Texas Government Code, as amended, and in accordance with the City Council approved Investment Policies.

TABLE 15 - CURRENT INVESTMENTS

The City has contracted with First Southwest Asset Management to provide for investment and management of its public funds or other funds under its control. As of November 30, 2013, the City’s investable funds were invested in the following categories:

Description	Percent of Total	Market Value	Book Value
U.S. Agencies	18.18%	\$ 32,016,100	\$ 31,992,478
Investment Pools ⁽¹⁾	2.34%	4,116,207	4,116,207
Collateralized Bank CDs	1.14%	2,006,523	2,006,523
Collateralized Savings Accounts ⁽²⁾	78.35%	138,000,229	138,000,229
Total	<u>100.00%</u>	<u>\$ 176,139,059</u>	<u>\$ 176,115,437</u>

(1) Includes TexPool and TexStar.

(2) Backed by collateral that is held by third parties.

TAX MATTERS

TAX EXEMPTION

In the opinion of Bracewell & Giuliani LLP, Bond Counsel, (i) interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and (ii) the Certificates are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”) and, as such, interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of obligation proceeds and the source of repayment of obligations, limitations on the investment of obligation proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of obligation proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Ordinances pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes and, in addition, will rely on representations by the City, the City’s Financial Advisor and the Initial Purchaser with respect to matters solely within the knowledge of the City, the City’s Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT or REMIC), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations, such as the Certificates, is included in a corporation’s “adjusted current earnings,” ownership of the Certificates could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. 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 the ultimate outcome of the audit.

PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS

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

The City has designated the Certificates as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Certificates, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds") issued or reasonably anticipated to be issued by or on behalf of the City during 2014, is not expected to exceed \$10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Certificates) during 2014.

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences. . . Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualified for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium Certificates . . . The issue price of all of the Certificates exceeds the stated redemption price payable at maturity of such Certificates. Such Certificates (the "Premium Certificates") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Certificate in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Certificate in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Certificate by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Certificate that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Certificate) is determined using the yield to maturity on the Premium Certificate based on the initial offering price of such Certificate.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Certificates that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Certificates should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Certificate and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Certificates.

Tax Legislative Changes . . . Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Obligations from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Obligations. Prospective purchasers of the Obligations should consult with their own **tax advisors with respect to any proposed, pending or future legislation.**

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the 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 provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year.

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 Internet Web site (www.emma.msrb.org) 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 B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

MATERIAL EVENT NOTICES

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the 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 determination of taxability, Notices of Proposed Issue (IRS Form 5701TEB) 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, and tender offers; (8) Certificate calls; (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 the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee or the change in the name of the trustee, if material. 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."

For the purposes of the event numbered 12 in the preceding paragraph, the event 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 U.S. 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

The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

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 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.

COMPLIANCE WITH PRIOR UNDERTAKINGS

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Certificates and presently outstanding tax supported debt of the City are rated “Aa2” by Moody's and “AA” by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City, that, if decided against the City, would have a material adverse effect upon the operations of the City or that would exceed the contingency amounts set aside for such purpose.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates 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 provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act, Chapter 1201, Texas Government Code, the Certificates (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (3) are legal and authorized investments for (a) an insurance company, (b) a fiduciary or trustee, or (c) a sinking fund of a municipality or other political subdivision or public agency of the State. The Certificates are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Certificates may have to be assigned a rating of “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. 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. No review has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

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 investment for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Certificates are valid and binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to a like effect and to the effect that the interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates are not private activity bonds, see “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations. The form of such opinion is attached hereto as Appendix C. Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates and the Ordinance in this Official Statement under the captions “THE CERTIFICATES” (except for the subcaptions “USE OF PROCEEDS FROM THE CERTIFICATES” “BOOK-ENTRY-ONLY SYSTEM” and “CERTIFICATE-HOLDERS’ REMEDIES”), “TAX MATTERS,” “CONTINUING DISCLOSURE OF INFORMATION” (except for the subcaption “COMPLIANCE WITH PRIOR UNDERTAKINGS”) and the subcaptions “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” “REGISTRATION AND QUALIFICATIONS OF CERTIFICATES FOR SALE” and “LEGAL MATTERS” under the caption “OTHER

INFORMATION” and is of the opinion that the information relating to the Certificates and the Ordinance contained therein fairly and accurately describes the provisions thereof. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System.

The 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.

FINANCIAL ADVISOR

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

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

INITIAL PURCHASER

After requesting competitive bids for the Certificates, the City accepted the bid of Citigroup Global Markets Inc. (the “Initial Purchaser”) to purchase the Certificates at the interest rates shown on the inside cover of this Official Statement at a purchase price of par of the principal amount thereof plus a cash premium of \$263,490.25. The initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser.

FORWARD-LOOKING STATEMENTS

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

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

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

/s/ Malcolm Duncan, Jr.

Mayor
City of Waco, Texas

ATTEST:

/s/ Patricia Ervin

City Secretary
City of Waco, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

GENERAL INFORMATION REGARDING THE CITY

Information for this section has been obtained from various sources which are believed to be reliable, including the Greater Waco Chamber of Commerce, the Municipal Advisory Council of Texas, the Baylor Bureau of Business Research, the McLennan Community College Public Information Office, the Providence Health Center, the Hillcrest Baptist Medical Center, St. Catherine's Center, and the Waco McLennan County Medical Society.

INTRODUCTION

The City of Waco (the "City"), founded in 1849, is the 23rd largest city in the State and covers approximately 99 square miles. The City is the county seat of McLennan County, which encompasses over 1,000 square miles. The City is the approximate geographic center of Texas' population and is often referred to as the "Heart of Texas." At the confluence of the Bosque River and the 890-mile Brazos River, the City lies between the three largest cities in the state: 90 miles south of Dallas, 200 miles northwest of Houston and 180 miles northeast of San Antonio. It is less than 100 miles from the state capitol in Austin. 80% of the State's population is within 300 miles of Waco.

Historically, the City has been a trade and agriculture center. The central location in the State makes the City commercially attractive as a distribution center for trade goods of all kinds. Efforts by the community's leadership over the past several years have led to diversification in the regional economy.

Attractive business opportunities exist in the Downtown Waco Public Improvement District, State and Federal Enterprise Zones, Foreign Trade Zone, Tax Increment Financing Zones and in the industrial parks operated by the Waco Industrial Foundation. Waco businesses are at the center of Texas and the hub of transportation and shipping facilities for distribution around the country and the world.

Waco has many technical and professional employees who are graduates of the City's three institutions of higher learning - Baylor University, McLennan Community College and Texas State Technical College. These institutions also provide employers with customized training for workers, providing everything from literacy training to executive M.B.A. programs.

TOP EMPLOYERS

The City's economic diversity is reflected in the composition of the top employers in the City. These employers are:

OVER 1,000 EMPLOYEES

Baylor University - Education
Waco Independent School District - Education
Providence Health Care Network - Medical, Hospital
L3 Communications - Aircraft Modification
Hillcrest Baptist Medical Center - Medical, Hospital
Wal-Mart - Retail
City of Waco - Government
HEB Stores - Grocery
Midway Independent School District - Education
Sanderson Farms - Poultry Processing

OVER 500 EMPLOYEES

Examination Management Services Inc. - Insurance
Inspection Audit
McLennan County - Government
McLennan Community College - Post Secondary Education
Veterans Administration Medical Center - Veterans' Healthcare System
Cargill Foods, Inc. - Dressed/ Packed Turkey Products
Texas State Technical College - Post Secondary Education
Veterans Affairs Regional Office
Allergan, Inc.
United States Postal Service - Federal Government
Pilgrim's Pride, Inc. - Poultry Processing
American Income Life - Insurance
Army and Air Force Exchange Services
Texas Youth Commission - McLennan County SJCF
Mars Chocolate

OVER 300 EMPLOYEES

Aramark
Texas Farm Bureau and Affiliated Companies
Family Health Center
Coca-Cola North
America Nurses Unlimited, Inc.
Methodist Children's Home
Lochridge Priest
Connally ISD
Alcoa Fastening Systems
La Vega ISD
Time Manufacturing Company
Brazos Electric
Packaging Corporation of America
Scott & White Healthcare
Big Creek Construction
Heart of Texas Region MHMR Center
Wal-Mart Return Center
Spherion
Owens Illinois
Visiting Angels
Atmos Energy
Oak Farms Dairy

ECONOMY

The City is at the heart of a major growth area in the State economy. Texas is divided into six distinct economic regions, as described by the State Comptroller of Public Accounts. Situated in the northern portion of the Central Corridor, which stretches from south of the Dallas-Fort Worth Metroplex to south of San Antonio, Waco is in close proximity to four of Texas' major cities.

The City's sources of basic income are primarily from manufacturing, educational services and tourism, according to Baylor's Center for Economic Analysis. The educational sector contributes directly to the City's economic stability. The manufacturing and distribution sector of the City has grown steadily, especially in the transportation equipment and food processing industries.

LABOR FORCE

CITY OF WACO⁽¹⁾

Year	Labor Force	Total Employment	Unemployment	Rate
2007	54,115	51,534	2,581	4.77%
2008	54,683	51,872	2,811	5.14%
2009	56,575	52,515	4,060	7.18%
2010	57,467	52,928	4,539	7.90%
2011	56,694	52,186	4,508	7.95%
2012	56,722	52,612	4,110	7.25%
2013	57,055	53,231	3,823	6.70%

MCLENNAN COUNTY⁽¹⁾

Year	Labor Force	Total Employment	Unemployment	Rate
2007	110,175	105,466	4,709	4.27%
2008	110,630	105,528	5,102	4.61%
2009	114,462	106,836	7,626	6.66%
2010	115,706	107,199	8,507	7.35%
2011	116,392	107,791	8,601	7.39%
2012	116,314	108,721	7,593	6.53%
2013	117,107	110,000	7,107	6.07%

(1) Source: Texas Workforce Commission.

MEDIAN HOUSEHOLD INCOME

WACO MSA⁽¹⁾

Year	City Income Level	State Income Level	% of State Income Level
2008	\$ 48,200	\$ 55,000	87.64%
2009	51,700	57,400	90.07%
2010	51,900	58,600	88.57%
2011	54,000	59,500	90.76%
2012	54,700	60,300	90.71%
2013	50,000	60,100	83.19%

(1) Source: U.S. Department of Housing and Urban Development.

EDUCATION

The City's three institutions of higher learning, Baylor University, McLennan Community College and Texas State Technical College, provide a diversified and stable talent pool for local employers. Together, these institutions train more than 30,000 students in credit courses each year. Their combined full-time faculty numbers over 1,200. Together they offer the area a selection of over 300 different degree programs, ranging from one-year certificates of employment to a doctor of philosophy.

TRANSPORTATION

With its central location and easy proximity to other major Texas cities, the City continues to be a crossroads of major transportation systems. The City is at the center of a bustling region served by an impressive system of highways, railroads and air transportation.

Highways

Six highways intersect the City, creating easy access to Texas, the Southwest and the nation.

Interstate 35 connects the City to Austin and San Antonio to the south and to Dallas-Fort Worth Metroplex to the north. *US Highway 77* connects Waco to north and south Texas. *US Highway 84* is a major thoroughfare connecting east and west Texas. *US Highway 84* goes west through Abilene and Lubbock to the Panhandle; it also connects to *Interstate 45*, which runs from Dallas to Houston. *State Highway 6* leads southeast from the City to the Houston area. *State Highway 31* connects with *Interstate 45* at Corsicana and continues on to Tyler and Shreveport, Louisiana. *State Highway 164* also connects with *Interstate 35* as well as *State Highway 75*.

Rail

The *Union Pacific Railroad* has two major lines providing service for local industry, running through the City and south of the City. The *Union Pacific* line connects to the *Burlington Northern Santa Fe Railway*.

Motor Freight Transportation

Motor freight needs of City industry are actively served by 20 common motor carriers. Of these carriers, all provide interstate service and six also provide Texas intrastate service.

Air

Three local airports, including one of the nation's largest industrial air facilities, offer beneficial services for businesses, industries and individuals.

Waco Regional Airport, located on the northern boundaries of the City, is only 12 minutes from downtown Waco. *American Eagle* provides daily flights to Dallas/Fort Worth International Airport. *Texas State Technical College Airport*, located adjacent to the Texas State Technical College campus, is one of the nation's largest industrial airports and the City's largest airport, with a 8,600 by 200 foot all-weather runway, and an alternate 6,400 by 150-foot runway. To the west is the *McGregor Airport*, an executive airport facility.

APPENDIX B

EXCERPTS FROM THE
CITY OF WACO, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2013

The information contained in this Appendix consists of excerpts from the City of Waco, Texas Annual Financial Report for the Year Ended September 30, 2013, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

City of Waco, Texas
Financial Statements and
Required Supplemental Information
September 30, 2013
(With Independent Auditors' Report Thereon)

City of Waco, Texas

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September 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on 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 the City of Waco, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Waco, Texas, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund 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 on pages 4 through 16 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, on our consideration of the City of Waco, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Waco, Texas' internal control over financial reporting and compliance.

January 21, 2014

Management's Discussion and Analysis

As management of the City of Waco (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities as of September 30, 2013 by \$506,003,844 (net position). Of this amount, \$91,698,508 (unrestricted net position) may be 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 total net assets increased by \$12,441,597.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$77,787,317. The fund balance components are nonspendable - \$1,229,265, restricted - \$30,810,420, committed - \$10,346,015, assigned - \$15,797,369 and unassigned - \$19,604,248. The City Council approves the amounts reported as committed and assigned.
- As of September 30, 2013, unassigned fund balance for the General Fund was \$19,604,248 or 18.97% of the 2014 budgeted general fund revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements – The government-wide financial statements, which begin on page 17 of this report, 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 fiscal year. All changes in net position are reported when 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 the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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 works, public safety, culture and recreation, public health, and housing and community development. The business-type activities of the City include water, wastewater, solid waste, airport, convention services, Ranger Hall of Fame, Cameron Park Zoo, transit services, and Cottonwood Creek Golf Course.

The government-wide financial statements can be found on pages 17 - 19 of this report.

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

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses 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 funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Beginning on page 20 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund, which is considered a major fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance. Data from all other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual fund statements and schedules elsewhere in this report.

Proprietary funds – The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, wastewater, solid waste, airport, convention services, Ranger Hall of Fame, Cameron Park Zoo, transit services, and Cottonwood Creek Golf Course operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City’s various functions.

The City uses its internal service funds to account for its risk management, health insurance, engineering, and fleet services. These internal service functions have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements which begin on page 32 of this report provide separate information for the water, wastewater, and solid waste enterprise funds since these are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining and individual fund statements and schedules elsewhere in this report. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining and individual fund statements and schedules elsewhere in this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resource of these funds is not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Statement of Fiduciary Net Position can be found on page 37 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38 through 81 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the government’s financial position. In the case of the City of Waco, assets exceeded liabilities by \$506,003,844 as of September 30, 2013.

The largest portion of the City’s net position (\$396,714,387) reflects its net investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, infrastructure and water rights), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide service 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.

City of Waco Net Position

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 105,727,993	110,826,952	109,494,456	97,157,716	215,222,449	207,984,668
Capital assets	<u>258,717,034</u>	<u>251,552,599</u>	<u>415,759,055</u>	<u>421,095,974</u>	<u>674,476,089</u>	<u>672,648,573</u>
Total assets	<u>364,445,027</u>	<u>362,379,551</u>	<u>525,253,511</u>	<u>518,253,690</u>	<u>889,698,538</u>	<u>880,633,241</u>
Long-term liabilities	105,026,191	107,061,038	223,423,583	225,314,139	328,449,774	332,375,177
Other liabilities	<u>30,697,678</u>	<u>30,301,018</u>	<u>24,547,242</u>	<u>24,394,799</u>	<u>55,244,920</u>	<u>54,695,817</u>
Total liabilities	<u>135,723,869</u>	<u>137,362,056</u>	<u>247,970,825</u>	<u>249,708,938</u>	<u>383,694,694</u>	<u>387,070,994</u>
Net position:						
Net investment in capital assets	180,993,606	178,295,347	215,720,781	219,663,969	396,714,387	397,959,316
Restricted	17,584,373	22,291,256	6,576	6,834	17,590,949	22,298,090
Unrestricted	<u>30,143,179</u>	<u>24,430,892</u>	<u>61,555,329</u>	<u>48,873,949</u>	<u>91,698,508</u>	<u>73,304,841</u>
Total net position	<u>\$ 228,721,158</u>	<u>225,017,495</u>	<u>277,282,686</u>	<u>268,544,752</u>	<u>506,003,844</u>	<u>493,562,247</u>

A portion of the City's net position (\$17,590,949) represents resources that are subject to external restriction on how they may be used. The remaining balance (\$91,698,508) of unrestricted net position may be used to meet the City's ongoing obligation to citizens and creditors in accordance with the City's fund designation and fiscal policies.

As of September 30, 2013, the City has positive balances in all three categories of net position, both for the City as a whole, as well as for its governmental and business-type activities separately. The same situation held true for the prior fiscal year.

The government's net position increased \$12,441,597 during the current fiscal year.

Analysis of the City's operations – The following table provides a summary of the City's operations for the year ended September 30, 2013. Governmental activities increased the City's net position by \$3,703,663 and represented 29.8% of the total. Business-type activities increased the City's net position by \$8,737,934 and represented 70.2% of the total increase.

City of Waco
Changes in Net Position

	Year Ended September 30,					
	2013			2012		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 6,259,382	88,204,469	94,463,851	5,624,765	85,531,254	91,156,019
Operating grants and contributions	11,616,774	3,430,713	15,047,487	11,640,290	3,415,770	15,056,060
Capital grants and contributions	7,256,153	4,754,594	12,010,747	6,883,729	3,786,143	10,669,872
General revenues:						
Ad valorem taxes	57,100,563	-	57,100,563	54,377,202	-	54,377,202
Sales taxes	31,075,760	-	31,075,760	29,186,254	-	29,186,254
Franchise taxes	13,286,438	-	13,286,438	13,682,123	-	13,682,123
Hotel/motel taxes	-	2,095,987	2,095,987	-	1,897,865	1,897,865
Other taxes	704,355	-	704,355	650,815	-	650,815
Investment earnings	308,603	159,463	468,066	360,561	196,566	557,127
Miscellaneous	2,298,062	-	2,298,062	882,450	-	882,450
Gain on sale of land	290,376	-	290,376	1,730,200	-	1,730,200
Total revenues	130,196,466	98,645,226	228,841,692	125,018,389	94,827,598	219,845,987
Expenses:						
General government	20,039,649	-	20,039,649	14,177,640	-	14,177,640
Public works	13,699,976	-	13,699,976	11,844,356	-	11,844,356
Public safety	62,592,351	-	62,592,351	57,664,131	-	57,664,131
Culture and recreation	16,544,389	-	16,544,389	15,694,840	-	15,694,840
Public health	7,388,363	-	7,388,363	7,184,384	-	7,184,384
Housing and community development	2,435,924	-	2,435,924	3,664,525	-	3,664,525
Interest on long-term debt	3,873,202	-	3,873,202	4,098,714	-	4,098,714
Water	-	32,916,500	32,916,500	-	33,311,059	33,311,059
Wastewater	-	18,388,139	18,388,139	-	17,634,339	17,634,339
Solid waste	-	16,025,259	16,025,259	-	15,854,254	15,854,254
Airport	-	3,083,925	3,083,925	-	2,937,967	2,937,967
Convention services	-	3,941,005	3,941,005	-	3,372,280	3,372,280
Ranger Hall of Fame	-	1,343,575	1,343,575	-	1,209,145	1,209,145
Cameron Park Zoo	-	4,318,267	4,318,267	-	4,396,640	4,396,640
Transit services	-	8,026,608	8,026,608	-	7,970,314	7,970,314
Cottonwood Creek Golf Course	-	1,782,963	1,782,963	-	1,864,426	1,864,426
Total expenses	126,573,854	89,826,241	216,400,095	114,328,590	88,550,424	202,879,014
Increase in net position before transfers	3,622,612	8,818,985	12,441,597	10,689,799	6,277,174	16,966,973
Transfers	81,051	(81,051)	-	(2,555,596)	2,555,596	-
Increase in net position	3,703,663	8,737,934	12,441,597	8,134,203	8,832,770	16,966,973
Net position, beginning of year	225,017,495	268,544,752	493,562,247	216,883,292	259,711,982	476,595,274
Net position, end of year	\$ 228,721,158	277,282,686	506,003,844	225,017,495	268,544,752	493,562,247

Governmental activities – Key elements of the change in governmental net position include:

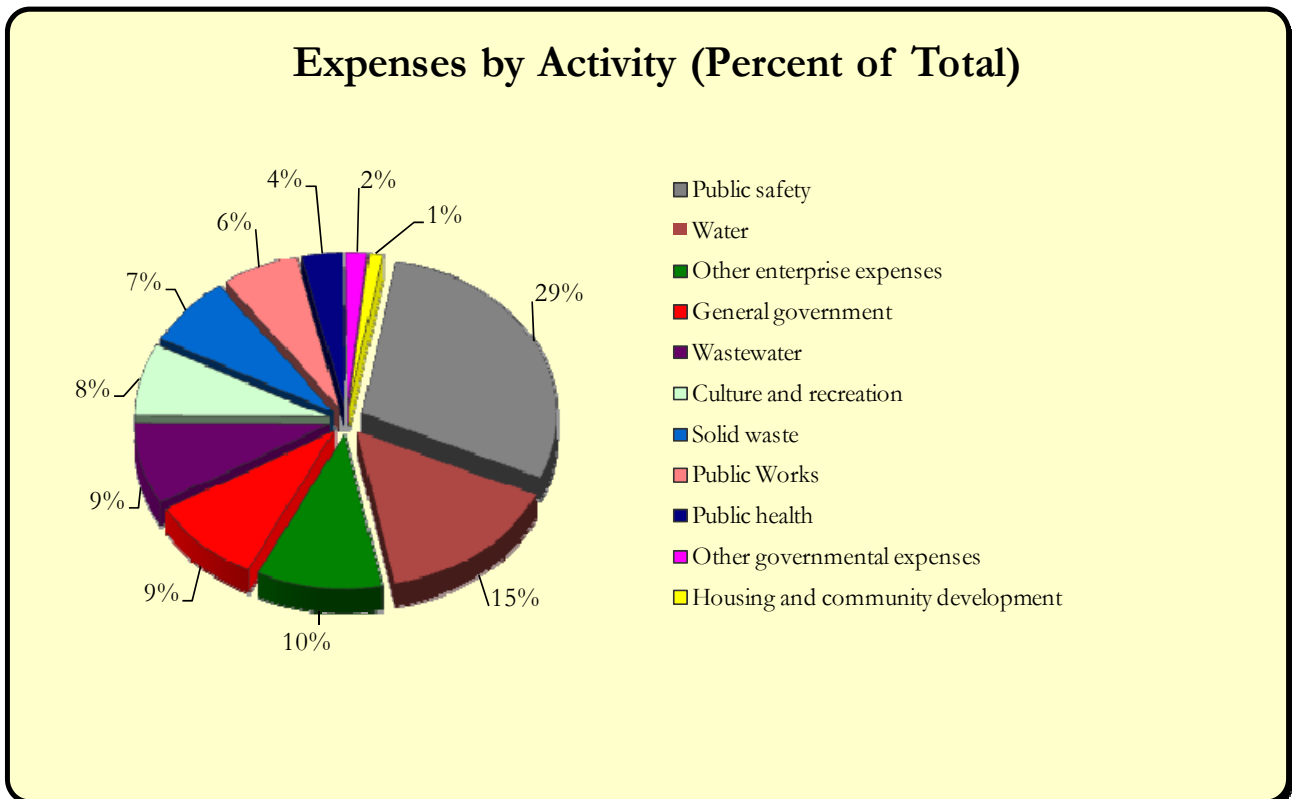
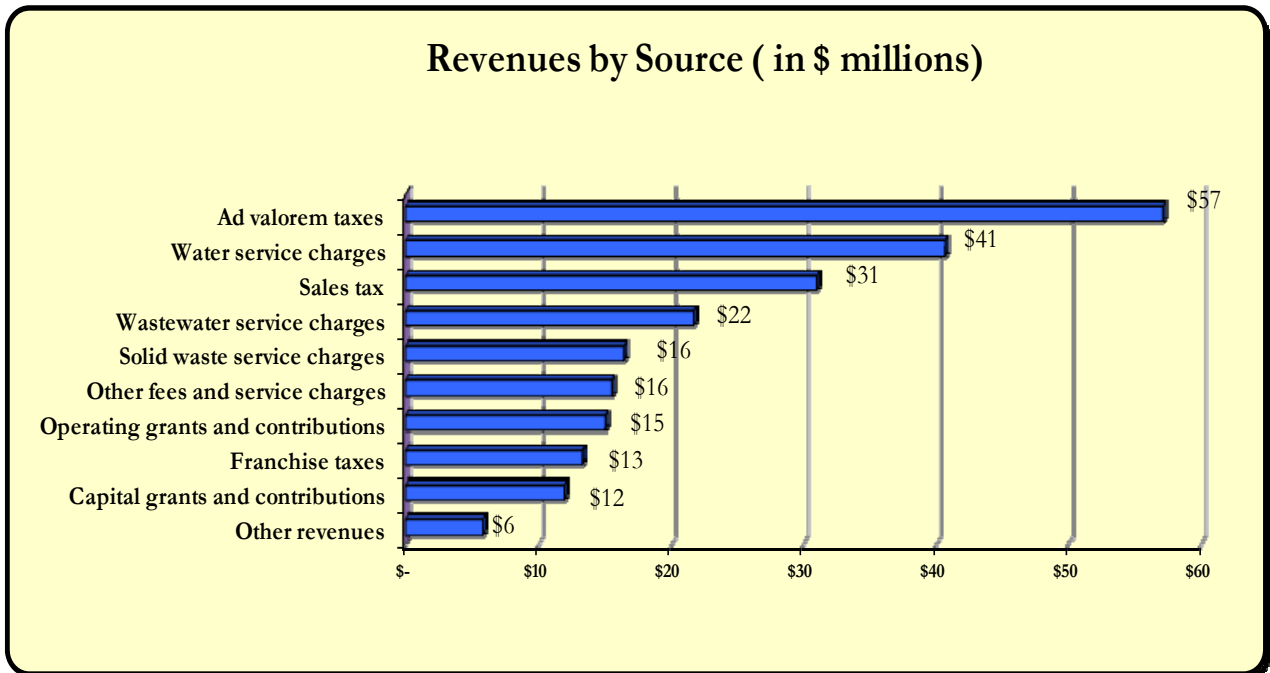
- Overall, governmental revenues increased \$5,178,077 (4.14%). Ad valorem taxes increased \$2,723,361 (5.01%), primarily as the result of (1) increased valuations, which included \$82 million assessed valuation for new construction and (2) increased delinquent tax collections including penalties and interest. Sales taxes reflected an increase of \$1,889,506 (6.47%). Miscellaneous revenue increased by \$1,415,612 primarily due to revenues from the City's agreement with an electric generating facility operating in the county.
- Overall, governmental expenses increased \$12,245,264 (10.71%). The City Council approved a 3% percent salary increase as well as job class step increases for some civil service employees based on rank and service time. This salary increase resulted in approximately \$1.8 million. Another major component of the increase was grant funding of \$8 million that was provided from reinvestment zone number one to assist with infrastructure improvements for the new stadium/community events complex at Baylor University. 2013 was the first year of a planned ten-year commitment to provide grant funding of up to \$35,060,340 for the complex. This annual grant funding is limited to tax increment revenue collected each year for the reinvestment zone. Additional expenses of approximately \$1.2 million were also incurred to support the City's revitalization efforts for demolition and clean-up projects. The City recognized an additional \$1.3 million of depreciation expense as compared to the previous year.

Texas Municipal Retirement System (TMRS) has made significant changes in actuarial assumptions and funding methodology used in calculating their member cities' contribution rates starting in 2009. Beginning in January 2009, the City's contribution rate had been based on an eight-year phase-in period to get to the full contribution rate. The phase-in rates necessary to fund the plan provisions were continuing to increase each year. The TMRS benefit provisions were reviewed during the fiscal year 2012 budget process. The City Council approved a plan change to turn off annually repeating annuity increases for retirees. This plan change became effective January 1, 2012 and reduced the City's full contribution rate to 14.04% (as compared to an anticipated 2012 phase-in rate of 20.07% and full rate of 22.24%). This change has continued to reduce pension expense and resulted in savings of over \$651,000.

Business-type activities – Key elements of the increase in business-type net position include:

- Total revenues increased \$3,817,628 (4.03%) primarily due to charges for services which reported an increase of \$2.7 million (3.13%). The increase in the water fund of \$2.0 million (due to the drier summer as compared to prior year) accounted for most of this increase.
- Total expenses reported an increase of \$1,275,817 (1.44%). Increases in salaries and benefits accounted for \$1.4 million. Depreciation expense increased by \$1.0 million related to capital improvement projects and various other expenses increased almost \$800,000. These increases were offset with savings in other expenses, primarily over \$1.9 million of interest expense due to bond refunding issues.

Government-wide activities – Total government-wide activities for 2013 are depicted in the graphs below:



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City of Waco's governmental funds reported combined ending fund balances of \$77,787,317. Approximately 1.6% (\$1,229,265) of this total amount constitutes nonspendable fund balance. Nonspendable fund balance represents net resources that cannot be spent because of their form or because they must remain intact. Included in this component are inventories, advances to other funds, and permanent funds. Approximately 39.6% (\$30,810,420) of the total fund balance is classified as restricted. Restricted fund balance reflects resources that are subject to externally enforceable legal restrictions. This classification includes debt service, capital projects, and special revenue funds such as tax increment zones. Approximately 13.3% (\$10,346,015) of the fund balance is reported as committed. Committed fund balances represent resources whose use has a self-imposed limitation imposed by the City Council and would require formal action to remove or modify the commitment. This classification includes resources that have been committed for economic development initiatives. Approximately 20.3% (\$15,797,369) of the fund balance is reported as assigned which reflects the City's intended use of resources. These intended uses are approved by the City Council. The remainder of the fund balance of \$19,604,248 (25.2%) is reported as unassigned. Only the general fund can report a positive amount of unassigned fund balance. Refer to page 54 of this report for a more detailed presentation of governmental fund balances.

The City's Financial Management Policy Statements provide for general fund unassigned fund balance to be maintained at 18% of current year revenues. Unassigned general fund balance at the end of the current fiscal year is 18.97% of 2014 budgeted revenues. The fund balance of the general fund at the end of the current year reported an increase of \$7,782,788. Total revenues in the general fund increased \$7,010,668 as compared to the prior year and were \$5,694,313 more than budgeted. Key factors in general fund revenue are as follows:

- Growth in net taxable assessed property valuation of approximately \$187 million including \$82 million from new construction is reflected in the \$3.4 million increase in property tax revenue. Increased delinquent tax collections also are included in this total. This revenue source represented approximately 41% of total general fund revenues.
- Sales tax revenue reported almost a \$1.9 million increase as compared to prior year, with actual amounts exceeding the amount originally budgeted for the fiscal year by \$3.3 million. This revenue source represents over 30% of total general fund revenues.
- Gross receipts fees, which had been budgeted very conservatively, were less than prior year, but actual amounts exceeded the amount originally budgeted for the fiscal year by \$677,462. Almost 13% of total general fund revenues came from gross receipts fees.

Proprietary funds - The City's proprietary fund statements beginning on page 32 of this report provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the respective major proprietary funds are Water - \$34,302,441, Wastewater - \$19,473,353, and Solid Waste - \$7,882,528. These funds experienced increases in total net position during 2013 as follows: Water - \$4,911,806, Wastewater - \$2,706,717, and Solid Waste - \$173,507.

General Fund budgetary highlights – Differences between the original budget and the final amended budget for appropriations were \$5,909,873. The primary differences can be briefly summarized as follows:

- \$458,123 increase for purchasing ROW for the FM 1637, Highway 84, and Loop 574 projects.
- \$8,490 increase for revision of the federal emergency management agency maps.
- \$498,018 increase for funds allocated to the Texas Ranger Headquarters Office project.
- \$257,262 increase for expenses related to the operation of the animal shelter facility by the City.
- \$738,000 increase for construction expenses related to Loop 574 project.
- \$79,750 increase for information technology consulting services.
- \$218,623 increase for information technology hardware and software upgrades.
- \$558,066 increase for purchase and installation of public safety radio improvements.
- \$724,967 increase for police department equipment.
- \$67,200 increase for additional costs related to interlocal agreement with local mental health mental retardation center to provide transportation and monitoring services for the police department.
- \$99,475 increase for capital outlay in traffic.
- \$271,296 increase for a portion of the lighting system replacement project for the historic Suspension Bridge.
- \$706,422 for replacement of the City's telephone system.
- \$137,939 increase for the City's municipal information cable channel equipment.

- \$424,932 increase to fund various large demolition projects.
- \$185,000 increase for purchase of 3.35 acres of land.
- \$104,925 increase for fire department equipment.
- \$20,000 increase for housing department projects
- \$43,659 increase for parks and recreation department equipment.
- \$307,726 increase for assistance with airport, golf course, and zoo operations.

Of this increase, \$1,554,574 was from fund balance assigned for capital improvements, \$836,123 from fund balance assigned for economic development, \$20,000 from fund balance assigned for housing and community development, \$43,659 from fund balance assigned for culture and recreation, \$216,256 from fund balance assigned for public safety, \$271,296 from unassigned fund balance, \$175,000 from increases in animal shelter fees, \$137,939 from increases in gross receipts taxes, \$242,964 from increases in sale of real estate, \$144,757 from increases in miscellaneous revenues, \$400,000 from increases in the transfer from the Abandoned Motor Vehicle fund, and \$1,867,305 from increases in sales tax.

Refer to the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on pages 23 to 31 of this report for a detailed presentation of the actual General Fund operations compared to both the original and final budget for fiscal year 2013.

CAPITAL ASSETS

The City of Waco's investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$674,476,089 (net of accumulated depreciation). This investment in capital assets includes land, building, machinery and equipment, improvements other than buildings, infrastructure and construction work in progress. Major capital asset events occurring during the current fiscal year included the following:

- Capitalized approximately \$7.7 million on various water, wastewater, and solid waste systems projects.
- Capitalized \$3.0 million on various park facility improvements expenditures and contributions.
- Capitalized \$5.0 million on Airport Improvement Program projects.
- Capitalized \$6.1 million for police facilities and equipment.
- Capitalized \$7.3 million in street and drainage expenditures and contributions.
- Capitalized \$1.1 million for fire equipment

City of Waco Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 44,816,272	43,243,517	6,311,458	6,311,458	51,127,730	49,554,975
Buildings	68,049,191	55,614,972	81,092,966	81,753,761	149,142,157	137,368,733
Improvements other than buildings	56,635,043	50,667,577	469,156,084	457,101,862	525,791,127	507,769,439
Machinery and equipment	44,404,968	41,068,918	44,813,771	45,060,741	89,218,739	86,129,659
Museum collections	-	-	2,133,424	2,116,424	2,133,424	2,116,424
Infrastructure	260,147,197	250,834,919	-	-	260,147,197	250,834,919
Construction work in progress	5,679,635	18,481,817	9,889,387	7,635,810	15,569,022	26,117,627
Water rights	-	-	32,482,879	32,482,879	32,482,879	32,482,879
Less: accumulated depreciation	<u>(221,015,272)</u>	<u>(208,359,121)</u>	<u>(230,120,914)</u>	<u>(211,366,961)</u>	<u>(451,136,186)</u>	<u>(419,726,082)</u>
Total capital assets	<u>\$ 258,717,034</u>	<u>251,552,599</u>	<u>415,759,055</u>	<u>421,095,974</u>	<u>674,476,089</u>	<u>672,648,573</u>

Additional information on the City's capital assets can be found in Note IV on pages 56 - 59 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Waco had total bonded debt, loans and notes payable, and capital lease obligations of \$318,522,423. Of this amount, \$316,522,909 represents bonded debt backed by the full faith and credit of the government. The City's capitalized lease obligation of \$61,608 pertains to purchases of computer equipment. The \$1,967,906 note payable is for purchase of pump station and water transmission lines.

City of Waco Bonds, Notes and Capitalized Obligations Payable

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
General obligation certificates	\$ 91,770,603	95,470,683	224,752,306	207,205,507	316,522,909	302,676,190
State participation loan	-	-	-	15,000,000	-	15,000,000
Capital lease obligations	61,608	109,814	-	-	61,608	109,814
Note payable	-	-	1,967,906	2,034,421	1,967,906	2,034,421
	<u>\$ 91,832,211</u>	<u>95,580,497</u>	<u>226,720,212</u>	<u>224,239,928</u>	<u>318,552,423</u>	<u>319,820,425</u>

During the 2013 fiscal year, the City issued \$11,880,000 in general obligation certificates of obligation. The proceeds will be used for various general City improvements including fire services, traffic control systems, equipment, parks, streets, street lighting and drainage, and sidewalks. The City also issued \$43,660,000 of general obligation refunding bonds, which were used to refund (1) general obligation bonds and (2) the \$15 million state participation loan and its related \$5.1 million of deferred interest. This advance/current refunding was undertaken to reduce total debt service payments over the next twenty years by \$11,982,025 and resulted in an economic gain of \$9,380,970.

The City's combination tax and revenue certificates of obligation bond rates are listed below:

	<u>Moody's Investors Service</u>	<u>Standard and Poor's</u>
General obligation bonds	Aa2	AA

Additional information on the City of Waco's long-term debt can be found in Note IV on pages 62 to 66 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The general fund budget (including transfers in) for fiscal year 2014 is based on a modest increase in revenues of 4.4% over last year's adopted budget, due mainly to the increase from ad valorem taxes primarily from new construction and the City's debt reduction initiative, a significant increase in sales tax and court fines, and newly budgeted revenues from the City's agreement with an electric generating facility. An ad valorem tax rate decrease of one cent was approved for 2014.

Approximately 29% of general fund revenues come from sales taxes. The City ended 2013 with sales tax revenue considerably over the original adopted budget. Sales taxes for 2014 were budgeted with a 6% increase over the fiscal year 2013 adopted budget, but still less than actual receipts for 2013. The City's preference is to be conservative in this area of the budget because this revenue is so volatile and is affected by so many factors that the City has no control over.

The 2014 budget includes a 2% salary increase for all employees and increases for certain civil service employees who are eligible for step pay increases. Departments were asked to evaluate their staffing needs as positions became vacant during the year, review positions that had been vacant for a considerable amount of time, and assess operations for efficiencies in the workforce. This budget reflects a net increase of only 6.13 full-time equivalent positions over last year's budget even though a total of 12 employees were added for the animal shelter division when the City took over operations of the facility from the local humane society.

The TMRS benefit provisions of the City's plan were reviewed during the fiscal year 2012 budget process and as a result, the City Council approved a plan change to turn off annually repeating annuity increases and significantly reduced pension expense. Effective January 1, 2014, the City's full contribution rate is 13.61% (includes a 50% ad hoc annuity increase). The City's budget for fiscal year 2014 included approximately \$10 million for TMRS contributions and the City's funded ratio increased to 88.6%.

Fiscal year 2014 does not include any rate changes in water and wastewater rates for any class of customers. Solid waste residential, commercial, roll-off and landfill rates will also remain the same for 2014.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact Janice Andrews, Finance Director, at P. O. Box 2570, Waco, Texas 76702-2570, or call (254) 750-5758.

City of Waco, Texas
Statement of Net Position
September 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Central Waco Development Corporation	Waco Health Facilities Development Corporation
Assets					
Cash and investments	\$ 83,790,260	61,642,652	145,432,912	6,384	30,172
Receivables (net of allowances for uncollectibles):					
Accounts	3,942,255	11,755,428	15,697,683	-	-
Special assessments	2,258	-	2,258	-	-
Taxes	7,669,937	-	7,669,937	-	-
Intergovernmental receivable	3,701,861	3,866,099	7,567,960	-	-
Accrued interest receivable	-	3,630	3,630	-	-
Internal balances	2,360,781	(2,360,781)	-	-	-
Inventories	736,029	1,095,748	1,831,777	-	-
Restricted cash and investments	-	31,458,254	31,458,254	-	-
Notes receivable	2,763,113	596,517	3,359,630	-	-
Real estate held for resale	46,221	-	46,221	-	-
Deferred charges	715,278	1,436,909	2,152,187	-	-
Capital assets not being depreciated:					
Land	44,816,272	6,311,458	51,127,730	-	-
Museum collections	-	2,133,424	2,133,424	-	-
Construction in progress	5,679,635	9,889,387	15,569,022	-	-
Capital assets, net of accumulated depreciation:					
Buildings	52,585,677	51,443,244	104,028,921	-	-
Machinery and equipment	14,113,596	15,938,444	30,052,040	-	-
Improvements other than buildings	33,548,683	305,469,926	339,018,609	-	-
Infrastructure	107,973,171	-	107,973,171	-	-
Water rights	-	24,573,172	24,573,172	-	-
Total assets	<u>364,445,027</u>	<u>525,253,511</u>	<u>889,698,538</u>	<u>6,384</u>	<u>30,172</u>
Liabilities					
Accounts payable	3,293,517	2,056,081	5,349,598	-	-
Accrued liabilities	6,263,519	2,663,265	8,926,784	-	-
Accrued interest payable	676,213	1,640,175	2,316,388	-	-
Unearned revenue	1,136,136	1,126,635	2,262,771	-	-
Escrow funds	273,734	165,706	439,440	-	-
Customer deposits	241,056	-	241,056	-	-
Liabilities payable from restricted assets	-	2,894,720	2,894,720	-	-
Noncurrent liabilities:					
Due within one year	18,813,503	14,000,660	32,814,163	-	-
Due in more than one year	105,026,191	223,423,583	328,449,774	-	-
Total liabilities	<u>135,723,869</u>	<u>247,970,825</u>	<u>383,694,694</u>	<u>-</u>	<u>-</u>
Net Position					
Net investment in capital assets	180,993,606	215,720,781	396,714,387	-	-
Restricted for:					
Tax increment financing/public improvement district	11,644,497	-	11,644,497	-	-
Grant requirements	4,051,478	-	4,051,478	-	-
Forfeitures and abandoned motor vehicles	436,087	-	436,087	-	-
Court security and technology	974,420	-	974,420	-	-
Debt service	-	-	-	-	-
Parks and cemetery care - nonexpendable	477,891	-	477,891	-	-
Capital projects	-	6,576	6,576	-	-
Unrestricted	30,143,179	61,555,329	91,698,508	6,384	30,172
Total net position	<u>\$ 228,721,158</u>	<u>277,282,686</u>	<u>506,003,844</u>	<u>6,384</u>	<u>30,172</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Activities
Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ (20,039,649)	277,810	1,635,813
Public works	(13,699,976)	1,537	-
Public safety	(62,592,351)	3,676,669	2,309,269
Culture and recreation	(16,544,389)	1,042,779	975,080
Public health	(7,388,363)	1,260,587	3,668,736
Housing and community development	(2,435,924)	-	3,027,876
Interest on long-term debt	(3,873,202)	-	-
Total governmental activities	(126,573,854)	6,259,382	11,616,774
Business-type activities:			
Water	(32,916,500)	40,713,824	2,033
Wastewater	(18,388,139)	21,718,912	-
Solid waste	(16,025,259)	16,489,195	-
Airport	(3,083,925)	1,079,297	87,600
Convention services	(3,941,005)	1,018,086	-
Ranger Hall of Fame	(1,343,575)	410,728	104,923
Cameron Park Zoo	(4,318,267)	1,618,495	-
Transit services	(8,026,608)	3,540,047	3,236,157
Cottonwood Creek Golf Course	(1,782,963)	1,615,885	-
Total business-type activities	(89,826,241)	88,204,469	3,430,713
Total primary government	\$ (216,400,095)	94,463,851	15,047,487
Component Units:			
Central Waco Development Corporation	\$ -	-	-
Waco Health Facilities Development Corporation	-	-	-
Total component units	\$ -	-	-
General revenues:			
Taxes:			
Property			
Property tax increment financing			
Sales			
Franchise			
Hotel/motel			
Other			
Unrestricted investment earnings			
Gain on sale of capital assets			
Miscellaneous			
Transfers			
		Total general revenues and transfers	
		Change in net position	
		Net position, beginning of year	
		Net position, end of year	

See accompanying notes to financial statements.

Net Revenues (Expenses) and Changes in Net Position					
Capital Grants and Contributions	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Central Waco Development Corporation	Waco Health Facilities Development Corporation
-	(18,126,026)	-	(18,126,026)		
6,621,155	(7,077,284)	-	(7,077,284)		
-	(56,606,413)	-	(56,606,413)		
634,998	(13,891,532)	-	(13,891,532)		
-	(2,459,040)	-	(2,459,040)		
-	591,952	-	591,952		
-	(3,873,202)	-	(3,873,202)		
<u>7,256,153</u>	<u>(101,441,545)</u>	<u>-</u>	<u>(101,441,545)</u>		
134,230	-	7,933,587	7,933,587		
91,992	-	3,422,765	3,422,765		
-	-	463,936	463,936		
4,496,133	-	2,579,105	2,579,105		
-	-	(2,922,919)	(2,922,919)		
17,000	-	(810,924)	(810,924)		
15,239	-	(2,684,533)	(2,684,533)		
-	-	(1,250,404)	(1,250,404)		
-	-	(167,078)	(167,078)		
<u>4,754,594</u>	<u>-</u>	<u>6,563,535</u>	<u>6,563,535</u>		
<u>12,010,747</u>	<u>(101,441,545)</u>	<u>6,563,535</u>	<u>(94,878,010)</u>		
-	-			(65)	-
-	-			-	(70)
-	-			(65)	(70)
\$	51,184,254	-	51,184,254	-	-
	5,916,309	-	5,916,309	-	-
	31,075,760	-	31,075,760	-	-
	13,286,438	-	13,286,438	-	-
	-	2,095,987	2,095,987	-	-
	704,355	-	704,355	-	-
	308,603	159,463	468,066	13	62
	290,376	-	290,376	-	-
	2,298,062	-	2,298,062	-	-
	81,051	(81,051)	-	-	-
	<u>105,145,208</u>	<u>2,174,399</u>	<u>107,319,607</u>	<u>13</u>	<u>62</u>
	3,703,663	8,737,934	12,441,597	(52)	(8)
	<u>225,017,495</u>	<u>268,544,752</u>	<u>493,562,247</u>	<u>6,436</u>	<u>30,180</u>
\$	<u>228,721,158</u>	<u>277,282,686</u>	<u>506,003,844</u>	<u>6,384</u>	<u>30,172</u>

City of Waco, Texas
Balance Sheet
Governmental Funds
September 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Assets:			
Cash and investments	\$ 40,942,152	31,927,812	72,869,964
Receivables, net of allowances:			
Accounts	3,720,412	220,946	3,941,358
Special assessments	-	2,258	2,258
Taxes	7,171,284	498,653	7,669,937
Notes receivable	1,000	2,762,113	2,763,113
Due from other funds	3,405,403	6,818,230	10,223,633
Advances to other funds	-	168,368	168,368
Intergovernmental receivable	1,391,071	2,310,790	3,701,861
Inventories	536,785	-	536,785
Real estate held for resale	6,160	40,061	46,221
	<u>\$ 57,174,267</u>	<u>44,749,231</u>	<u>101,923,498</u>
Liabilities			
Liabilities:			
Accounts payable	\$ 2,081,080	875,051	2,956,131
Accrued liabilities	4,393,075	1,593,409	5,986,484
Deferred revenue	3,896,523	3,221,644	7,118,167
Due to other funds	886,859	6,674,288	7,561,147
Deposits	241,056	-	241,056
Escrow funds	244,698	28,498	273,196
	<u>11,743,291</u>	<u>12,392,890</u>	<u>24,136,181</u>
Fund Balances			
Fund balances:			
Nonspendable	542,945	686,320	1,229,265
Restricted	766,896	30,043,524	30,810,420
Committed	8,719,518	1,626,497	10,346,015
Assigned	15,797,369	-	15,797,369
Unassigned	19,604,248	-	19,604,248
	<u>45,430,976</u>	<u>32,356,341</u>	<u>77,787,317</u>
Total liabilities and fund balances	<u>\$ 57,174,267</u>	<u>44,749,231</u>	
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.			257,886,349
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.			5,982,031
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.			6,833,242
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			(119,767,781)
			<u>\$ 228,721,158</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds
Year Ended September 30, 2013

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 72,988,945	16,044,634	89,033,579
Business and occupation fees	13,286,438	-	13,286,438
Permits, licenses and fees	1,170,932	1,190,778	2,361,710
Fines	1,807,306	108,598	1,915,904
Charges for services	1,643,861	-	1,643,861
Investment earnings	107,101	178,611	285,712
Contributions	315,363	111,212	426,575
Intergovernmental	1,568,064	9,320,397	10,888,461
Program income	-	464,650	464,650
Other	9,888,023	572,648	10,460,671
Total revenues	<u>102,776,033</u>	<u>27,991,528</u>	<u>130,767,561</u>
Expenditures:			
Current:			
General government	16,189,167	11,206,005	27,395,172
Public works	3,214,854	-	3,214,854
Public safety	57,762,483	3,002,864	60,765,347
Culture and recreation	11,946,865	845,701	12,792,566
Housing and community development	177,536	3,091,611	3,269,147
Public health	-	7,271,899	7,271,899
Capital outlay	-	14,814,436	14,814,436
Debt service:			
Principal	-	5,912,954	5,912,954
Interest and fiscal charges	-	3,946,312	3,946,312
Bond issuance costs	-	35,891	35,891
Total expenditures	<u>89,290,905</u>	<u>50,127,673</u>	<u>139,418,578</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,485,128</u>	<u>(22,136,145)</u>	<u>(8,651,017)</u>
Other financing sources (uses):			
Proceeds from sale of capital assets	290,376	-	290,376
Refunding bonds issued	-	1,700,000	1,700,000
Prepayment to refunded bond escrow agent	-	(1,999,938)	(1,999,938)
Premium on refunding bonds	-	316,832	316,832
General obligation bonds issued	-	2,175,000	2,175,000
Premium on general obligation bonds	-	168,544	168,544
Capital lease	-	-	-
Transfers in	4,634,431	10,301,279	14,935,710
Transfers out	(10,627,147)	(2,518,711)	(13,145,858)
Total other financing sources (uses)	<u>(5,702,340)</u>	<u>10,143,006</u>	<u>4,440,666</u>
Net change in fund balances	7,782,788	(11,993,139)	(4,210,351)
Fund balances, beginning of year	<u>37,648,188</u>	<u>44,349,480</u>	<u>81,997,668</u>
Fund balances, end of year	<u>\$ 45,430,976</u>	<u>32,356,341</u>	<u>77,787,317</u>

See accompanying notes to financial statements.

City of Waco, Texas
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2013

Amounts reported for governmental activities in the Statement of Activities (pages 18 - 19) are different because:

Net change in fund balances - total governmental funds (page 21)	\$ (4,210,351)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	170,481
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, transfers, trade-ins, and donations) is to increase net assets.	6,657,963
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(599,818)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of insurance costs, premiums, 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.	3,636,693
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.	(1,015,880)
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue of activities of internal service funds is reported with governmental activities.	<u>(935,425)</u>
Change in net assets of governmental activities (pages 18 - 19)	<u>\$ 3,703,663</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund

Year Ended September 30, 2013

(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with	2012
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Revenues					
Taxes:					
Sales tax income	\$ 27,732,766	29,600,071	31,075,760	1,475,689	29,186,254
Property taxes	40,789,048	40,789,048	41,286,874	497,826	38,039,811
Interest and penalty on taxes	450,000	450,000	626,311	176,311	486,577
Total taxes	<u>68,971,814</u>	<u>70,839,119</u>	<u>72,988,945</u>	<u>2,149,826</u>	<u>67,712,642</u>
Business and occupation fees:					
Occupation fees	30,000	30,000	35,233	5,233	103,078
Gross receipts fees	12,573,743	12,711,682	13,251,205	539,523	13,579,045
Total business and occupation fees	<u>12,603,743</u>	<u>12,741,682</u>	<u>13,286,438</u>	<u>544,756</u>	<u>13,682,123</u>
Permits, licenses and fees:					
Building permits	333,207	333,207	558,029	224,822	453,494
Plumbing permits	117,526	117,526	191,203	73,677	144,622
Electrical permits	156,778	156,778	242,139	85,361	199,131
Electrical licenses	-	-	-	-	-
Heating and air conditioning licenses	53,523	53,523	78,540	25,017	70,375
Fire inspection fees	29,178	29,178	36,731	7,553	32,246
House moving permits	-	-	332	332	385
Open air/street vending	3,675	3,675	5,240	1,565	5,765
Sign permits	15,000	15,000	27,117	12,117	4,245
Subdivision fees	19,500	19,500	31,601	12,101	20,507
Total permits, licenses and fees	<u>728,387</u>	<u>728,387</u>	<u>1,170,932</u>	<u>442,545</u>	<u>930,770</u>
Fines:					
Court fines	1,342,652	1,342,652	1,762,756	420,104	1,451,347
Auto impound fees	80,000	80,000	44,550	(35,450)	114,374
Total fines	<u>1,422,652</u>	<u>1,422,652</u>	<u>1,807,306</u>	<u>384,654</u>	<u>1,565,721</u>
Charges for services:					
Recreation	777,076	777,076	711,814	(65,262)	766,050
Weed mowing	32,000	32,000	65,427	33,427	55,495
Library fees	97,061	97,061	107,406	10,345	100,264
Animal pick up	19,032	19,032	12,755	(6,277)	18,224
Animal shelter fees	-	175,000	154,272	(20,728)	-
Grounds maintenance	50,039	50,039	50,039	-	48,582
Graphics	60,000	60,000	95,029	35,029	74,703
Police security services	150,000	150,000	130,500	(19,500)	154,474
Airport security services	281,163	281,163	316,619	35,456	284,191
Total charges for services	<u>1,466,371</u>	<u>1,641,371</u>	<u>1,643,861</u>	<u>2,490</u>	<u>1,501,983</u>
Investment earnings	55,000	55,000	107,101	52,101	121,240
Contributions	171,171	171,171	315,363	144,192	219,577
Intergovernmental	1,477,526	1,477,526	1,568,064	90,538	1,497,372

(continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013

(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with	2012
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Revenues (continued)					
Other:					
Indirect expense reimbursements	\$ 6,789,363	6,789,363	6,760,825	(28,538)	6,399,365
False alarm fines	9,200	9,200	8,550	(650)	8,200
Rents from real estate	116,321	116,321	135,013	18,692	125,866
Miscellaneous revenue	387,849	532,606	2,348,031	1,815,425	1,416,565
Sale of other scrap	20,000	20,000	23,928	3,928	17,721
Zoning applications	7,500	7,500	13,375	5,875	10,655
Commission from sale of mixed drinks	353,678	353,678	381,202	27,524	353,980
Commission on municipal court fines	40,400	40,400	79,790	39,390	58,238
Commission on concessions	107,309	107,309	110,272	2,963	113,992
Garage sale permits	28,435	28,435	25,500	(2,935)	28,970
Special assessments	-	-	1,537	1,537	385
Total other	<u>7,860,055</u>	<u>8,004,812</u>	<u>9,888,023</u>	<u>1,883,211</u>	<u>8,533,937</u>
Total revenues	<u>94,756,719</u>	<u>97,081,720</u>	<u>102,776,033</u>	<u>5,694,313</u>	<u>95,765,365</u>
Expenditures					
General Government					
Administrative services:					
Salaries and wages	1,340,962	1,379,733	1,291,000	88,733	1,178,232
Employee benefits	410,125	408,354	384,915	23,439	367,843
Purchased professional/technical services	127,970	92,860	47,135	45,725	58,800
Purchased property services	31,848	31,848	34,528	(2,680)	26,654
Maintenance	1,200	2,000	-	2,000	132
Other purchased service	301,081	298,785	74,991	223,794	95,795
Supplies	87,620	92,116	83,177	8,939	106,513
Other expenses	287,200	788,818	280,971	507,847	1,012,740
Total administrative services	<u>2,588,006</u>	<u>3,094,514</u>	<u>2,196,717</u>	<u>897,797</u>	<u>2,846,709</u>
City Secretary:					
Salaries and wages	269,633	269,633	258,004	11,629	261,573
Employee benefits	97,011	97,011	92,069	4,942	93,283
Purchased professional/technical services	49,338	45,738	37,814	7,924	79,471
Maintenance	3,844	3,844	2,974	870	2,858
Other purchased services	21,275	22,275	17,895	4,380	13,952
Supplies	17,238	19,838	19,238	600	18,080
Total city secretary	<u>458,339</u>	<u>458,339</u>	<u>427,994</u>	<u>30,345</u>	<u>469,217</u>
Finance services:					
Salaries and wages	939,434	939,434	889,009	50,425	840,803
Employee benefits	301,559	301,559	284,506	17,053	276,581
Purchased professional/technical services	74,212	74,212	64,573	9,639	65,171
Maintenance	500	500	-	500	-
Other purchased service	23,370	23,370	18,878	4,492	19,976
Supplies	24,615	24,615	24,031	584	23,888
Other expenses	7,661	7,661	4,933	2,728	3,881
Total finance services	<u>1,371,351</u>	<u>1,371,351</u>	<u>1,285,930</u>	<u>85,421</u>	<u>1,230,300</u>

(Continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013

(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with Final Budget	2012
	Original	Final	Actual Amounts		Actual Amounts
Expenditures (continued)					
General Government (continued)					
Legal services:					
Salaries and wages	\$ 858,157	858,157	851,108	7,049	786,289
Employee benefits	257,304	257,304	252,300	5,004	240,167
Purchased professional/technical services	34,130	34,130	6,438	27,692	10,999
Maintenance	290	290	224	66	-
Other purchased service	30,015	30,015	22,653	7,362	23,064
Supplies	34,088	34,088	25,573	8,515	32,046
Total legal services	<u>1,213,984</u>	<u>1,213,984</u>	<u>1,158,296</u>	<u>55,688</u>	<u>1,092,565</u>
Planning services:					
Salaries and wages	320,258	337,666	310,613	27,053	332,597
Employee benefits	109,891	117,364	107,576	9,788	108,276
Purchased professional/technical services	-	370	370	-	1,293
Purchased property services	65,888	65,888	66,561	(673)	64,733
Maintenance	306	306	1,597	(1,291)	364
Other purchased service	15,703	15,333	10,302	5,031	8,966
Supplies	19,194	19,194	22,973	(3,779)	18,406
Total planning services	<u>531,240</u>	<u>556,121</u>	<u>519,992</u>	<u>36,129</u>	<u>534,635</u>
Human resources:					
Salaries and wages	485,939	485,939	475,920	10,019	451,444
Employee benefits	161,389	161,389	156,996	4,393	152,025
Purchased professional/technical services	12,663	7,974	2,836	5,138	3,570
Maintenance	2,090	3,590	3,544	46	1,549
Other purchased service	39,060	36,035	30,993	5,042	27,809
Supplies	12,854	19,068	13,322	5,746	10,952
Total human resources	<u>713,995</u>	<u>713,995</u>	<u>683,611</u>	<u>30,384</u>	<u>647,349</u>
Municipal information:					
Salaries and wages	419,182	419,182	418,533	649	405,295
Employee benefits	149,309	149,309	146,710	2,599	144,419
Purchased professional/technical services	8,000	16,134	16,444	(310)	7,765
Maintenance	7,618	17,061	11,386	5,675	8,029
Other purchased service	20,540	20,540	33,588	(13,048)	20,345
Supplies	25,935	68,273	61,259	7,014	58,504
Other expenses	32,040	32,040	32,034	6	32,034
Capital expenditures	-	78,024	78,024	-	61,136
Total municipal information	<u>662,624</u>	<u>800,563</u>	<u>797,978</u>	<u>2,585</u>	<u>737,527</u>
Information technology services:					
Salaries and wages	842,825	842,825	850,178	(7,353)	778,210
Employee benefits	283,271	283,271	279,318	3,953	266,439
Purchased professional/technical services	78,508	158,258	158,457	(199)	75,449
Maintenance	529,797	529,797	366,231	163,566	476,617
Other purchased service	413,716	413,716	392,346	21,370	342,236
Supplies	46,363	205,135	248,852	(43,717)	144,482
Capital expenditures	49,938	109,789	121,416	(11,627)	101,502
Total information technology services	<u>2,244,418</u>	<u>2,542,791</u>	<u>2,416,798</u>	<u>125,993</u>	<u>2,184,935</u>

(Continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013

(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with	2012
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Expenditures (continued)					
General Government (continued)					
Purchasing services:					
Salaries and wages	\$ 316,469	316,469	328,843	(12,374)	288,996
Employee benefits	108,200	108,200	108,758	(558)	100,268
Purchased professional/technical services	-	-	152	(152)	82
Maintenance	250	250	57	193	-
Other purchased service	12,111	12,111	11,246	865	10,470
Supplies	9,058	9,058	8,247	811	8,268
Total purchasing services	<u>446,088</u>	<u>446,088</u>	<u>457,303</u>	<u>(11,215)</u>	<u>408,084</u>
Facilities:					
Salaries and wages	974,193	974,193	994,103	(19,910)	893,437
Employee benefits	451,118	451,118	448,847	2,271	419,708
Purchased professional/technical services	91,580	109,080	230,782	(121,702)	150,097
Purchased property services	8,964	8,964	10,476	(1,512)	12,162
Maintenance	1,274,601	862,438	976,412	(113,974)	827,589
Other purchased service	56,301	56,301	46,143	10,158	49,473
Supplies	217,700	217,700	262,427	(44,727)	208,924
Capital expenditures	-	-	4,880	(4,880)	47,354
Total facilities	<u>3,074,457</u>	<u>2,679,794</u>	<u>2,974,070</u>	<u>(294,276)</u>	<u>2,608,744</u>
Economic development:					
Purchased professional/technical services	-	-	3,850	(3,850)	2,100
Supplies	-	-	-	-	434
Total economic development	<u>-</u>	<u>-</u>	<u>3,850</u>	<u>(3,850)</u>	<u>2,534</u>
Economic development incentive:					
Purchased professional/technical services	-	1,250,000	145,600	1,104,400	2,070,476
Total economic development incentive	<u>-</u>	<u>1,250,000</u>	<u>145,600</u>	<u>1,104,400</u>	<u>2,070,476</u>
Contributions:					
McLennan County	142,974	142,974	134,048	8,926	136,166
Greenwood Cemetery	1,500	1,500	1,500	-	1,500
Rosemound Cemetery	40,000	40,000	40,000	-	10,000
H.O.T. Council of Governments	11,344	11,344	9,842	1,502	9,842
The Advocacy Center	75,740	75,740	75,740	-	59,040
Greater Waco Chamber	136,500	136,500	136,500	-	136,500
Central Texas African American Chamber	68,000	68,000	68,000	-	68,000
Cen-Tex Hispanic Chamber	68,000	68,000	68,000	-	68,000
Downtown River Corridor	200,000	200,000	200,286	(286)	53,333
Economic development grants	305,500	305,500	328,299	(22,799)	168,336
McLennan County Appraisal District	578,191	578,191	578,246	(55)	550,436
YMCA Multi-Purpose Center	55,000	55,000	55,006	(6)	55,000
Senior Ministries	28,000	28,000	28,000	-	28,000
Total contributions	<u>1,910,749</u>	<u>1,910,749</u>	<u>1,923,467</u>	<u>(12,718)</u>	<u>1,564,202</u>
Miscellaneous:					
Employee benefits	100,000	100,000	65,684	34,316	92,892
Purchase professional/technical services	170,000	304,891	309,355	(4,464)	147,878
Maintenance	-	-	5,917	(5,917)	3,615
Other purchased service	-	-	(22)	22	-
Supplies	-	-	4,766	(4,766)	1,990
Capital expenditures	-	891,422	682,265	209,157	-
Other expenses	813,655	813,655	129,596	684,059	310,161
Total miscellaneous	<u>1,083,655</u>	<u>2,109,968</u>	<u>1,197,561</u>	<u>912,407</u>	<u>556,536</u>

(Continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013

(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with	2012
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Expenditures (continued)					
General Government (continued)					
Total General Government	\$ 16,298,906	19,148,257	16,189,167	2,959,090	16,953,813
Public Works					
Streets and drainage services:					
Salaries and wages	482,097	386,397	354,987	31,410	451,818
Employee benefits	287,230	255,230	215,565	39,665	255,157
Purchased professional/technical services	7,500	17,000	7,910	9,090	31,684
Purchased property services	24,122	29,822	30,446	(624)	26,349
Maintenance	568,931	681,431	677,672	3,759	534,376
Other purchased service	86,953	86,953	63,896	23,057	59,141
Supplies	303,217	303,217	248,769	54,448	268,492
Other expenses	(114,331)	1,081,792	1,010,680	71,112	231,763
Capital expenditures	1,000,000	1,000,000	604,929	395,071	4,393
Total streets and drainage services	2,645,719	3,841,842	3,214,854	626,988	1,863,173
Total Public Works	2,645,719	3,841,842	3,214,854	626,988	1,863,173
Public Safety					
Municipal court:					
Salaries and wages	730,838	730,838	633,404	97,434	653,472
Employee benefits	252,743	252,743	226,713	26,030	232,490
Purchased professional/technical services	19,900	19,900	13,459	6,441	12,449
Maintenance	1,300	1,300	108	1,192	132
Other purchased service	22,020	22,020	18,310	3,710	20,191
Supplies	85,644	85,644	75,588	10,056	82,383
Other expenses	8,017	8,017	9,682	(1,665)	7,967
Total municipal court	1,120,462	1,120,462	977,264	143,198	1,009,084
Inspection services:					
Salaries and wages	953,540	936,132	873,722	62,410	836,047
Employee benefits	357,245	349,772	327,332	22,440	316,222
Purchased professional/technical services	190,000	190,000	165,379	24,621	147,284
Purchased property services	67,128	67,128	71,214	(4,086)	55,767
Maintenance	59,796	59,796	46,226	13,570	31,735
Other purchased service	62,590	64,023	54,890	9,133	58,794
Supplies	80,238	78,805	68,530	10,275	78,139
Other expenses	4,455	4,455	12,410	(7,955)	6,954
Total inspection services	1,774,992	1,750,111	1,619,703	130,408	1,530,942
Emergency management services:					
Salaries and wages	250,505	250,505	249,367	1,138	194,923
Employee benefits	90,262	90,262	87,858	2,404	67,118
Purchased professional/technical services	17,660	17,660	10,484	7,176	5,455
Purchased property services	600	600	1,822	(1,222)	-
Maintenance	204,827	204,827	103,826	101,001	19,241
Other purchased service	24,421	24,421	16,732	7,689	14,680
Supplies	27,849	27,849	27,207	642	13,371
Capital expenditures	-	558,066	600,302	(42,236)	-
Other expenses	115,154	115,154	114,798	356	95,558
Total emergency management services	731,278	1,289,344	1,212,396	76,948	410,346

(Continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013
(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with	2012
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Expenditures (continued)					
Public Safety (continued)					
Fire services:					
Salaries and wages	\$ 13,632,313	13,584,663	13,446,372	138,291	12,721,041
Employee benefits	4,517,477	4,507,477	4,385,055	122,422	4,265,803
Purchased professional/technical services	145,304	161,604	138,733	22,871	98,508
Purchased property services	55,657	55,657	58,314	(2,657)	45,391
Maintenance	223,658	261,158	247,822	13,336	204,071
Other purchased service	251,986	263,686	323,676	(59,990)	265,863
Supplies	640,778	672,335	646,299	26,036	544,117
Capital expenditures	-	65,518	83,860	(18,342)	31,502
Total fire services	<u>19,467,173</u>	<u>19,572,098</u>	<u>19,330,131</u>	<u>241,967</u>	<u>18,176,296</u>
Police services:					
Salaries and wages	20,154,940	20,097,198	20,492,897	(395,699)	19,545,220
Employee benefits	6,927,730	6,927,730	6,898,155	29,575	6,686,954
Purchased professional/technical services	281,148	379,037	378,649	388	270,500
Purchased property services	98,757	80,757	79,788	969	91,424
Maintenance	783,423	770,529	707,282	63,247	701,489
Other purchased service	789,935	824,757	847,233	(22,476)	797,932
Supplies	1,516,856	1,803,393	1,857,156	(53,763)	1,348,461
Capital expenditures	-	435,813	264,521	171,292	626,674
Other expenses	740	740	839	(99)	827
Total police services	<u>30,553,529</u>	<u>31,319,954</u>	<u>31,526,520</u>	<u>(206,566)</u>	<u>30,069,481</u>
Traffic services:					
Salaries and wages	762,302	762,302	711,916	50,386	720,005
Employee benefits	319,302	319,522	298,420	21,102	311,302
Purchased professional/technical services	-	14,875	9,926	4,949	-
Purchased property services	3,708	3,708	1,999	1,709	3,618
Maintenance	535,145	523,781	530,091	(6,310)	443,368
Other purchased service	29,553	29,333	32,930	(3,597)	35,270
Supplies	895,507	889,781	702,918	186,863	744,902
Capital expenditures	170,000	271,690	132,121	139,569	184,128
Total traffic services	<u>2,715,517</u>	<u>2,814,992</u>	<u>2,420,321</u>	<u>394,671</u>	<u>2,442,593</u>
Animal services:					
Salaries and wages	-	218,037	214,847	3,190	-
Employee benefits	-	109,291	109,781	(490)	-
Purchased professional/technical services	-	26,270	67,805	(41,535)	-
Purchased property services	-	4,850	6,427	(1,577)	-
Maintenance	-	32,000	50,124	(18,124)	-
Other purchased services	-	3,497	14,241	(10,744)	-
Supplies	-	113,317	123,106	(9,789)	-
Capital expenditures	-	-	39,288	(39,288)	-
Other expenses	-	-	282	(282)	-
Total animal services	<u>-</u>	<u>507,262</u>	<u>625,901</u>	<u>(118,639)</u>	<u>-</u>

(Continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013
(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with	2012
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Expenditures (continued)					
Public Safety (continued)					
Contributions:					
Animal shelter	\$ 300,247	50,247	50,247	-	300,247
Total contributions	<u>300,247</u>	<u>50,247</u>	<u>50,247</u>	<u>-</u>	<u>300,247</u>
Total Public Safety	<u>56,663,198</u>	<u>58,424,470</u>	<u>57,762,483</u>	<u>661,987</u>	<u>53,938,989</u>
Culture and Recreation					
Library services:					
Salaries and wages	1,711,533	1,711,533	1,635,904	75,629	1,639,275
Employee benefits	593,290	593,290	558,844	34,446	565,368
Purchased professional/technical services	98,041	95,711	111,298	(15,587)	82,273
Purchased property services	15,050	15,050	18,063	(3,013)	16,052
Maintenance	84,701	84,701	78,926	5,775	73,839
Other purchased service	182,156	182,156	155,720	26,436	179,027
Supplies	543,378	545,708	518,872	26,836	495,643
Other expenses	149,161	149,161	149,357	(196)	144,740
Total library services	<u>3,377,310</u>	<u>3,377,310</u>	<u>3,226,984</u>	<u>150,326</u>	<u>3,196,217</u>
Parks:					
Salaries and wages	3,283,485	3,179,749	3,109,361	70,388	3,088,450
Employee benefits	1,429,476	1,429,476	1,357,060	72,416	1,351,837
Purchased professional/technical services	259,550	348,098	325,185	22,913	322,275
Purchased property services	718,651	673,651	611,572	62,079	646,061
Maintenance	507,552	517,552	496,871	20,681	498,572
Other purchased service	197,266	198,316	192,195	6,121	189,672
Supplies	712,433	710,682	665,474	45,208	663,161
Capital expenditures	-	323,163	116,650	206,513	2,772,727
Other expenses	24,473	24,473	23,630	843	24,442
Total parks	<u>7,132,886</u>	<u>7,405,160</u>	<u>6,897,998</u>	<u>507,162</u>	<u>9,557,197</u>
Recreation services:					
Salaries and wages	792,116	792,116	762,832	29,284	715,222
Employee benefits	245,456	245,456	233,832	11,624	228,023
Purchased professional/technical services	410,175	410,175	397,021	13,154	395,404
Maintenance	15,441	15,441	10,693	4,748	4,162
Other purchased service	100,419	100,419	112,596	(12,177)	105,476
Supplies	243,696	282,577	293,406	(10,829)	289,431
Other expenses	13,257	17,057	11,503	5,554	12,640
Total recreation services	<u>1,820,560</u>	<u>1,863,241</u>	<u>1,821,883</u>	<u>41,358</u>	<u>1,750,358</u>
Total Culture and Recreation	<u>12,330,756</u>	<u>12,645,711</u>	<u>11,946,865</u>	<u>698,846</u>	<u>14,503,772</u>

(Continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013

(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	Budgeted Amounts		2013	Variance with	2012
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Expenditures (continued)					
Housing and Community Development					
Housing services:					
Salaries and wages	\$ 70,806	70,806	105,396	(34,590)	61,930
Employee benefits	25,111	25,111	34,159	(9,048)	22,849
Purchased professional/technical services	-	-	2,708	(2,708)	10,102
Other purchased service	11,233	11,233	7,688	3,545	7,723
Supplies	2,800	2,800	10,245	(7,445)	2,325
Other expenses	-	20,000	17,340	2,660	28,104
Total housing services	<u>109,950</u>	<u>129,950</u>	<u>177,536</u>	<u>(47,586)</u>	<u>133,033</u>
Total Housing and Community Development	<u>109,950</u>	<u>129,950</u>	<u>177,536</u>	<u>(47,586)</u>	<u>133,033</u>
Total expenditures	<u>88,048,529</u>	<u>94,190,230</u>	<u>89,290,905</u>	<u>4,899,325</u>	<u>87,392,780</u>
Excess of revenues over expenditures	<u>6,708,190</u>	<u>2,891,490</u>	<u>13,485,128</u>	<u>10,593,638</u>	<u>8,372,585</u>
Other Financing Sources (Uses)					
Proceeds from sale of capital assets:					
Sale of real estate	-	242,964	290,376	(47,412)	1,790,086
Total proceeds from sale of capital assets	<u>-</u>	<u>242,964</u>	<u>290,376</u>	<u>(47,412)</u>	<u>1,790,086</u>
Transfers in:					
Abandoned motor vehicles	50,000	450,000	450,000	-	50,000
Revenue in lieu of property taxes	<u>4,184,431</u>	<u>4,184,431</u>	<u>4,184,431</u>	<u>-</u>	<u>4,111,057</u>
Total transfers in	<u>4,234,431</u>	<u>4,634,431</u>	<u>4,634,431</u>	<u>-</u>	<u>4,161,057</u>
Transfers out:					
Cameron Park Zoo	(1,553,765)	(1,694,653)	(1,694,653)	-	(1,544,337)
Street Reconstruction Fund	(3,885,972)	(3,885,972)	(3,885,972)	-	(3,885,972)
Street CIP	-	-	-	-	(500,000)
Cottonwood Creek Golf Course	-	(105,870)	(105,870)	-	(1,186,724)
Transit services	(301,253)	(301,253)	-	301,253	-
Airport services	(501,711)	(562,679)	(562,679)	-	(370,573)
Convention services	-	-	-	-	(116,337)
Health services	(2,535,350)	(2,535,350)	(2,535,350)	-	(2,459,993)
Ranger Hall of Fame	(776,047)	(776,047)	(776,047)	-	(624,396)
Economic Development Incentive Fund	(1,250,000)	-	-	-	-
Housing demo-lot clearing	(75,000)	(365,041)	(365,041)	-	(75,000)
2007 General obligation bonds	-	(420,405)	(420,405)	-	(425,108)
Grant (fire)	-	-	(186,549)	(186,549)	(145,767)
Grant (police)	(63,523)	(63,523)	(94,581)	(31,058)	(61,910)
Total transfers out	<u>(10,942,621)</u>	<u>(10,710,793)</u>	<u>(10,627,147)</u>	<u>83,646</u>	<u>(11,396,117)</u>

(Continued)

City of Waco, Texas
Statement of Revenues, Expenditures
and Changes in Fund Balances – Budget and Actual –
General Fund
(Continued)

Year Ended September 30, 2013

(With Comparative Actual Amounts for the Year Ended September 30, 2012)

	<u>Budgeted Amounts</u>		2013	Variance with <u>Final Budget</u>	2012
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
Other financing sources (uses)					
Total other financing sources (uses)	\$ <u>(6,708,190)</u>	<u>(5,833,398)</u>	<u>(5,702,340)</u>	<u>36,234</u>	<u>(5,444,974)</u>
Net change in fund balances	-	(2,941,908)	7,782,788	10,724,696	2,927,611
Fund balances, beginning of year	<u>37,648,188</u>	<u>37,648,188</u>	<u>37,648,188</u>	<u>-</u>	<u>34,720,577</u>
Fund balances, end of year	\$ <u><u>37,648,188</u></u>	<u><u>34,706,280</u></u>	<u><u>45,430,976</u></u>	<u><u>10,724,696</u></u>	<u><u>37,648,188</u></u>

City of Waco, Texas
Statement of Net Position –
Proprietary Funds
September 30, 2013

Assets	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Wastewater	Solid Waste	Other Funds	Total	Funds
Current assets:						
Cash and investments	\$ 30,763,675	17,777,275	11,492,029	1,609,673	61,642,652	10,920,295
Accounts receivable, net of allowances	6,243,665	2,900,528	2,146,642	464,593	11,755,428	897
Due from other funds	-	-	-	139,221	139,221	-
Intergovernmental receivable	-	112,054	-	3,754,045	3,866,099	-
Current portion of notes receivable	-	45,042	-	-	45,042	-
Restricted cash and investments	2,721,903	172,817	-	-	2,894,720	-
Accrued interest on notes receivable	-	3,630	-	-	3,630	-
Inventories	277,732	10,379	-	807,637	1,095,748	199,244
Total current assets	40,006,975	21,021,725	13,638,671	6,775,169	81,442,540	11,120,436
Noncurrent assets:						
Restricted cash and investments	14,068,623	14,408,493	-	86,418	28,563,534	-
Noncurrent portion of notes receivable	-	551,475	-	-	551,475	-
Advances to other funds	525,336	-	-	-	525,336	-
Deferred charges	935,164	436,975	64,770	-	1,436,909	-
Capital assets:						
Land	1,279,185	2,408,235	1,753,855	870,183	6,311,458	38,800
Buildings	9,526,184	10,851,569	1,370,137	59,345,076	81,092,966	902,185
Improvements other than buildings	271,893,369	119,120,390	23,936,392	54,205,933	469,156,084	118,289
Machinery and equipment	7,131,275	8,004,572	15,398,712	14,279,212	44,813,771	1,062,565
Museum collections	-	-	-	2,133,424	2,133,424	-
Construction work in progress	3,019,888	3,482,935	62,197	3,324,367	9,889,387	-
Intangible water rights	32,482,879	-	-	-	32,482,879	-
Less: accumulated depreciation and amortization	(102,503,838)	(44,823,899)	(29,443,972)	(53,349,205)	(230,120,914)	(1,291,153)
Total capital assets	222,828,942	99,043,802	13,077,321	80,808,990	415,759,055	830,686
Total noncurrent assets	238,358,065	114,440,745	13,142,091	80,895,408	446,836,309	830,686
Total assets	278,365,040	135,462,470	26,780,762	87,670,577	528,278,849	11,951,122
Liabilities						
Liabilities:						
Current liabilities						
Accounts payable	698,941	426,722	221,766	708,652	2,056,081	337,386
Accrued liabilities	922,046	366,833	225,743	1,148,643	2,663,265	277,035
Unearned revenue	-	-	-	1,126,635	1,126,635	-
Due to other funds	-	-	-	2,331,634	2,331,634	470,073
Compensated absences payable	662,436	402,055	351,493	518,605	1,934,589	258,204
Refundable contracts	301,745	50,000	-	-	351,745	-
Notes payable	69,469	-	-	-	69,469	-
Escrow funds	-	-	-	165,706	165,706	538
Bonds payable	6,650,286	4,049,571	945,000	-	11,644,857	-
Accrued interest payable	1,100,785	500,847	38,543	-	1,640,175	-
Estimated claims and judgments	-	-	-	-	-	3,270,019
Total current liabilities	10,405,708	5,796,028	1,782,545	5,999,875	23,984,156	4,613,255

(Continued)

City of Waco, Texas
Statement of Net Position –
Proprietary Funds
(Continued)
September 30, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Wastewater	Solid Waste	Other Funds	Total	
Liabilities						
(Continued)						
Current liabilities payable from restricted assets:						
Accounts payable	\$ 213,023	172,817	-	-	385,840	-
Due to other funds	-	-	-	-	-	-
Customer deposits	2,508,880	-	-	-	2,508,880	-
	<u>2,721,903</u>	<u>172,817</u>	<u>-</u>	<u>-</u>	<u>2,894,720</u>	<u>-</u>
Total current liabilities	<u>13,127,611</u>	<u>5,968,845</u>	<u>1,782,545</u>	<u>5,999,875</u>	<u>26,878,876</u>	<u>4,613,255</u>
Noncurrent liabilities:						
Refundable contracts	1,300,891	142,542	-	-	1,443,433	-
Estimated landfill closure and post-closure care costs	-	-	4,290,174	-	4,290,174	-
Advances from other funds	-	-	-	693,704	693,704	-
Compensated absences payable	329,379	189,067	216,698	264,425	999,569	132,951
Net pension obligation	729,544	478,481	476,496	-	1,684,521	371,674
Bonds payable	149,350,110	58,665,416	5,091,923	-	213,107,449	-
Notes payable	1,898,437	-	-	-	1,898,437	-
Deferred interest payable	-	-	-	-	-	-
Total noncurrent liabilities	<u>153,608,361</u>	<u>59,475,506</u>	<u>10,075,291</u>	<u>958,129</u>	<u>224,117,287</u>	<u>504,625</u>
Total liabilities	<u>166,735,972</u>	<u>65,444,351</u>	<u>11,857,836</u>	<u>6,958,004</u>	<u>250,996,163</u>	<u>5,117,880</u>
Net Position						
Net position:						
Net investment in capital assets	77,326,627	50,544,766	7,040,398	80,808,990	215,720,781	830,686
Restricted for capital projects	-	-	-	6,576	6,576	-
Unrestricted	34,302,441	19,473,353	7,882,528	(102,993)	61,555,329	6,002,556
Total net position	<u>\$ 111,629,068</u>	<u>70,018,119</u>	<u>14,922,926</u>	<u>80,712,573</u>	<u>277,282,686</u>	<u>6,833,242</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds
Year Ended September 30, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Wastewater	Solid Waste	Other Funds	Total	
Operating revenues:						
Charges for services	\$ 40,150,643	21,364,852	16,068,416	6,607,826	84,191,737	17,682,680
Net merchandise sales	-	-	-	834,146	834,146	-
Contributions	-	-	-	120,053	120,053	-
Other	559,001	354,060	420,779	1,446,860	2,780,700	22,573
Total operating revenues	<u>40,709,644</u>	<u>21,718,912</u>	<u>16,489,195</u>	<u>9,008,885</u>	<u>87,926,636</u>	<u>17,705,253</u>
Operating expenses:						
Salaries and wages	4,797,093	2,696,831	2,844,841	6,877,612	17,216,377	2,303,504
Employee benefits	1,948,539	1,045,895	1,401,326	2,290,735	6,686,495	876,629
Purchased professional/ technical services	946,520	832,845	1,472,130	1,493,076	4,744,571	1,936,269
Purchased property services	204,360	96,083	-	550,866	851,309	58,848
Maintenance	1,779,760	1,266,790	1,683,604	785,568	5,515,722	122,182
Other purchased services	768,065	250,805	134,337	1,095,907	2,249,114	845,090
Supplies	4,685,035	2,053,091	1,932,166	2,616,023	11,286,315	182,365
Other	3,839,782	2,952,475	2,463,361	1,157,823	10,413,441	11,684,565
Depreciation/amortization	8,882,607	4,553,863	3,901,930	5,484,551	22,822,951	102,469
Total operating expenses	<u>27,851,761</u>	<u>15,748,678</u>	<u>15,833,695</u>	<u>22,352,161</u>	<u>81,786,295</u>	<u>18,111,921</u>
Operating income (loss)	<u>12,857,883</u>	<u>5,970,234</u>	<u>655,500</u>	<u>(13,343,276)</u>	<u>6,140,341</u>	<u>(406,668)</u>
Nonoperating revenues (expenses):						
Investment earnings	78,581	55,685	21,907	3,290	159,463	22,486
Other income	4,180	-	-	273,653	277,833	-
Hotel/motel tax	-	-	-	2,095,987	2,095,987	-
Contributions	-	-	-	104,923	104,923	-
Intergovernmental revenue	2,033	-	-	3,181,757	3,183,790	-
Loss on retirement of capital assets	-	(352,770)	-	-	(352,770)	-
Interest expense and fiscal charges	(5,064,739)	(2,286,691)	(191,564)	(2,182)	(7,545,176)	-
Total nonoperating revenues (expenses)	<u>(4,979,945)</u>	<u>(2,583,776)</u>	<u>(169,657)</u>	<u>5,657,428</u>	<u>(2,075,950)</u>	<u>22,486</u>
Income (loss) before contributions and transfers	7,877,938	3,386,458	485,843	(7,685,848)	4,064,391	(384,182)
Capital contributions	134,230	91,992	-	5,492,503	5,718,725	193,427
Transfers in	-	-	-	3,139,249	3,139,249	-
Transfers out	(3,100,362)	(771,733)	(312,336)	-	(4,184,431)	(744,670)
Changes in net position	4,911,806	2,706,717	173,507	945,904	8,737,934	(935,425)
Total net position, beginning of year	<u>106,717,262</u>	<u>67,311,402</u>	<u>14,749,419</u>	<u>79,766,669</u>	<u>268,544,752</u>	<u>7,768,667</u>
Total net position, end of year	<u>\$ 111,629,068</u>	<u>70,018,119</u>	<u>14,922,926</u>	<u>80,712,573</u>	<u>277,282,686</u>	<u>6,833,242</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Cash Flows –
Proprietary Funds
Year Ended September 30, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Wastewater	Solid Waste	Other Funds	Total	
Cash flows from operating activities:						
Cash received from customers	\$ 40,053,245	21,511,263	16,497,197	9,000,784	87,062,489	17,706,941
Cash paid to suppliers for goods and services	(11,567,651)	(7,327,485)	(7,394,758)	(7,355,460)	(33,645,354)	(14,568,679)
Cash paid to employees for services	(6,636,732)	(3,728,058)	(4,192,990)	(9,119,624)	(23,677,404)	(3,156,905)
Net cash provided by (used for) operating activities	<u>21,848,862</u>	<u>10,455,720</u>	<u>4,909,449</u>	<u>(7,474,300)</u>	<u>29,739,731</u>	<u>(18,643)</u>
Cash flows from noncapital financing activities:						
Hotel/motel tax	-	-	-	2,056,865	2,056,865	-
Intergovernmental revenue	2,033	-	-	3,369,354	3,371,387	-
Intergovernmental expense	-	-	-	(142,000)	(142,000)	-
Contributions	-	-	-	104,923	104,923	-
Passenger facility charges	-	-	-	273,653	273,653	-
Payments to other funds	-	-	-	(106,676)	(106,676)	-
Transfer from other funds	-	-	-	3,139,249	3,139,249	-
Transfer to other funds	(3,343,491)	(771,733)	(312,336)	-	(4,427,560)	(977,174)
Repayment of advances from other funds	-	-	-	(48,388)	(48,388)	-
Net cash provided by (used for) noncapital financing activities	<u>(3,341,458)</u>	<u>(771,733)</u>	<u>(312,336)</u>	<u>8,646,980</u>	<u>4,221,453</u>	<u>(977,174)</u>
Cash flows from capital and related financing activities:						
Acquisition of capital assets	(6,095,407)	(3,655,835)	(2,237,021)	(4,712,736)	(16,700,999)	(245,035)
Proceeds from sale of debt	5,164,700	5,209,076	435	-	10,374,211	-
Capital contributions	-	-	-	3,674,259	3,674,259	-
Principal paid on debt	(7,218,324)	(3,848,721)	(905,000)	-	(11,972,045)	-
Interest paid on debt	(6,721,451)	(2,481,641)	(257,814)	(2,182)	(9,463,088)	-
Net cash provided by (used for) capital and related financing activities	<u>(14,870,482)</u>	<u>(4,777,121)</u>	<u>(3,399,400)</u>	<u>(1,040,659)</u>	<u>(24,087,662)</u>	<u>(245,035)</u>
Cash flows from investing activities:						
Rental revenue	4,180	-	-	-	4,180	-
Investment earnings	78,581	55,951	21,907	3,290	159,729	22,486
Note payments from other entities	-	43,665	-	-	43,665	-
Net cash provided by investing activities	<u>82,761</u>	<u>99,616</u>	<u>21,907</u>	<u>3,290</u>	<u>207,574</u>	<u>22,486</u>
Net increase (decrease) in cash and cash equivalents	3,719,683	5,006,482	1,219,620	135,311	10,081,096	(1,218,366)
Cash and cash equivalents, beginning of year	<u>43,834,518</u>	<u>27,352,103</u>	<u>10,272,409</u>	<u>1,560,780</u>	<u>83,019,810</u>	<u>12,138,661</u>
Cash and cash equivalents, end of year	<u>\$ 47,554,201</u>	<u>32,358,585</u>	<u>11,492,029</u>	<u>1,696,091</u>	<u>93,100,906</u>	<u>10,920,295</u>

(Continued)

City of Waco, Texas
Statement of Cash Flows –
Proprietary Funds
(Continued)
Year Ended September 30, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Water	Wastewater	Solid Waste	Other Funds	Total	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 12,857,883	5,970,234	655,500	(13,343,276)	6,140,341	(406,668)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Provision for uncollectible accounts receivable	12,867	10,386	6,212	-	29,465	-
Depreciation/amortization	8,882,607	4,553,863	3,901,930	5,484,551	22,822,951	102,469
Changes in assets and liabilities:						
Decrease (increase) in assets:						
Accounts receivable	(669,266)	(218,035)	1,790	(20,835)	(906,346)	1,688
Inventories	53,328	4,744	-	(34,649)	23,423	(8,667)
Deferred charges	-	-	-	-	-	-
Increase (decrease) in liabilities:						
Accounts payable	262,690	210,239	104,429	294,118	871,476	105,754
Accrued liabilities	172,587	(67,091)	(31,686)	181,483	255,293	(27,821)
Unearned revenue	-	-	-	(15,972)	(15,972)	-
Estimated landfill closure and post-closure care costs	-	-	237,928	-	237,928	-
Compensated absences payable	65,329	(12,576)	29,421	(8,966)	73,208	4,492
Net pension obligation	6,549	3,956	3,925	-	14,430	3,165
Customer deposits	204,288	-	-	-	204,288	-
Estimated claims and judgments	-	-	-	-	-	206,945
Escrow funds	-	-	-	(10,754)	(10,754)	-
Net cash provided by (used for) operating activities	<u>\$ 21,848,862</u>	<u>10,455,720</u>	<u>4,909,449</u>	<u>(7,474,300)</u>	<u>29,739,731</u>	<u>(18,643)</u>
Noncash investing, capital, and financing activities:						
Contributions of capital assets	<u>\$ 134,230</u>	<u>-</u>	<u>-</u>	<u>989,845</u>	<u>1,124,075</u>	<u>193,427</u>
Payment to refunded bond escrow agent	<u>\$ 35,768,416</u>	<u>8,681,405</u>	<u>2,935,565</u>	<u>-</u>	<u>47,385,386</u>	<u>-</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Fiduciary Net Position -
Agency Funds
September 30, 2013

	<u>Agency Funds</u>
Assets	
Cash and investments	\$ 2,803,939
Note receivable	<u>189,547</u>
Total assets	<u><u>\$ 2,993,486</u></u>
Liabilities	
Due to other agencies and individuals	\$ <u>2,993,486</u>
Total liabilities	<u><u>\$ 2,993,486</u></u>

See accompanying notes to financial statements.

City of Waco, Texas

Notes to Financial Statements

September 30, 2013

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Waco, Texas (the City) is a municipal corporation governed by an elected mayor and a five-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely presented component units - The component units' column in the government-wide financial statements includes the financial data of the City's two component units.

Central Waco Development Corporation: The Central Waco Development Corporation is an industrial development corporation authorized to act on behalf of the City to promote and develop commercial, industrial and manufacturing enterprises. The Corporation is prohibited from issuing bonded debt without the approval of the City Council.

Waco Health Facilities Development Corporation: Waco Health Facilities Development Corporation is a public, nonprofit corporation organized as a result of the Health Facilities Development Act. Specifically, the corporation was formed to issue obligations in order to finance all or part of the cost of one or more health facilities to assist the maintenance of public health. The Corporation is prohibited from issuing bonded debt without the approval of the City Council.

Complete financial statements for each of the individual component units may be obtained from the City's finance department offices.

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 nonfiduciary 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-like 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.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

B. **Government-wide and Fund Financial Statements** (continued)

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, propriety funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus*, and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if collected within 60

City of Waco, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

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

days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting* for reporting its assets and liabilities.

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

The government reports the following major governmental funds:

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

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water services.

The *wastewater fund* accounts for the activities of the City's sewer services.

The *solid waste fund* accounts for the activities of the City's sanitation services.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

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

Additionally, the government reports the following fund types:

Internal service funds account for insurance/risk management services, health insurance, fleet services, and engineering services provided to other departments or agencies of the government on a cost reimbursement basis.

Agency funds account for receipts and disbursements for the Urban Renewal Agency, the Heart of Texas Housing Finance Corporation, and Waco Public Improvement District No. 2.

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 functions 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 revenues. Likewise, general revenues include 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 funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents for purposes of reporting cash flows of proprietary funds consist of cash on hand, demand deposits, certificates of deposit and deposits in the City's internal cash and investment pool.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

D. **Assets, Liabilities and Net Position/Fund Balance** (continued)

Deposits and Investments (continued)

State statutes authorize the City to invest in U. S. Treasury and agency securities, commercial paper, money market mutual funds, repurchase agreements, and government investment pools.

Investments for the City, as well as for its component units, are reported at fair value. The City invests in local government investment pools (LGIPs) that were created to function as money market mutual funds within the meaning of Rule 2a-7 of the Investment Company Act of 1940. Each of these LGIPs seeks to maintain a constant \$1.00 net asset value per share.

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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days are estimated to be uncollectible and comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 7.36 percent of outstanding property taxes at September 30, 2013.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 31. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

Inventories

All inventories are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

City of Waco, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position/Fund Balance (continued)

Restricted Assets

Certain proceeds of the enterprise fund bonds and certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, and similar items), and water rights are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred during the current fiscal year was \$8,107,895 for business-type activities. Of this amount, \$562,719 were included as part of the cost of capital assets under construction in connection with water and wastewater fund construction projects.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Landfill improvements	3 – 5
Buildings	20 – 50
Water rights	35
Improvements	5 – 50
Equipment	5 – 20
Infrastructure	35 – 125

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

D. **Assets, Liabilities and Net Position/Fund Balance** (continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. For governmental activities and proprietary funds, a liability is reported for a portion of accumulating sick leave when it is probable that the government will make termination payments. A liability for compensated absences is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Fund Balance

In the fund financial statements, governmental funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through a resolution. Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted nor committed. Assignments are also approved by the City Council through a resolution.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position/Fund Balance (continued)

Fund Balance (continued)

For the classification of governmental fund balances, the City considers the order of expenditures to be made from the most restrictive first when more than one classification is available. The order of spending available resources is as follows: restricted, committed, assigned, and unassigned.

The City Council has adopted Financial Management Policy Statements that include the policy to strive to maintain the general fund unassigned fund balance at 18% of budgeted revenues. General fund unassigned fund balance at September 30, 2013 was 18.97% of fiscal year 2014 budgeted revenues.

The following detail of fund balances by classification is shown for major and nonmajor governmental funds:

	General Fund	Other Funds	Total
Fund balances:			
Nonspendable:			
Inventory	\$ 536,785	-	536,785
Real estate held for resale	6,160	40,061	46,221
Advances to other funds	-	168,368	168,368
Parks and cemetery care	-	477,891	477,891
Restricted for:			
Park improvements	365,900	-	365,900
Debt service	-	238,053	238,053
Capital projects	-	15,531,634	15,531,634
Tax increment zone activities	-	10,960,465	10,960,465
Housing and community development	-	114,866	114,866
Public safety	300,000	1,831,495	2,131,495
Culture and recreation	-	755,434	755,434
Economic development	100,996	-	100,996
Waco Public Improvement District	-	611,577	611,577
Committed to:			
Economic development	8,719,518	-	8,719,518
Capital projects	-	1,275,085	1,275,085
Public health	-	351,412	351,412

City of Waco, Texas

Notes to Financial Statements
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position/Fund Balance (continued)

Fund Balance (continued)

	General Fund	Other Funds	Total
Assigned to:			
Capital improvements	9,073,859	-	9,073,859
Economic development	6,078,636	-	6,078,636
Housing and community development	25,000	-	25,000
Public safety	10,173	-	10,173
Public works	470,084		470,084
Culture and recreation	15,305	-	15,305
Other	124,312	-	124,312
Unassigned	19,604,248	-	19,604,248
	\$ 45,430,976	32,356,341	77,787,317

Net Position

In the government-wide and proprietary fund 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 its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. 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.

II. Reconciliation of Government-wide and Fund Financial Statements

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

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

City of Waco, Texas

Notes to Financial Statements
(Continued)

**II. Reconciliation of Government-wide
and Fund Financial Statements** (continued)

**A. *Explanation of Certain Differences Between the Governmental Fund
Balance Sheet and the Government-wide Statement of Net Position*** (continued)

explains, “long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$119,767,781 difference are as follows:

Capital lease	\$ 61,608
Serial bonds and certificates of obligation	90,815,143
Less: deferred charge on refunding (to be amortized as interest expense)	(667,506)
Less: deferred charge for issuance costs (to be amortized over life of debt)	(715,278)
Plus: issuance premium	1,622,966
Accrued interest payable	676,213
Compensated absences	17,206,943
Net pension obligation	9,625,369
Refundable contracts	80,007
Contracts payable	830,000
Net other post-employment benefit obligation	<u>232,316</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 119,767,781</u>

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

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental fund* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$170,481 difference are as follows:

Capital outlay	\$ 15,053,909
Depreciation expense	<u>(14,883,428)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 170,481</u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

**II. Reconciliation of Government-wide
and Fund Financial Statements** (continued)

***B. Explanation of Certain Differences Between the Governmental
Fund Statement of Revenues, Expenditures and Changes in Fund
Balances and the Government-wide Statement of Activities*** (continued)

Another element of that reconciliation states, “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, transfers, and donations) is to increase net position.” The details of this \$6,657,963 difference are as follows:

Donations and transfers of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$ <u>6,657,963</u>
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Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>6,657,963</u></u>
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Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$(599,818) difference are as follows:

Loan programs	\$ 12,552
Court fines	(118,037)
Property taxes	(534,104)
Intergovernmental	<u>39,771</u>

Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u><u>(599,818)</u></u>
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Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs,

City of Waco, Texas

Notes to Financial Statements
(Continued)

**II. Reconciliation of Government-wide
and Fund Financial Statements** (continued)

***B. Explanation of Certain Differences Between the Governmental
Fund Statement of Revenues, Expenditures and Changes in Fund
Balances and the Government-wide Statement of Activities*** (continued)

premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$3,636,693 difference are as follows:

Debt issued or incurred:	\$
Issuance of general obligation and refunding debt	(3,875,000)
Plus: premium on issuance	(485,376)
Less: deferred charge on issuance costs	35,971
Principal repayments:	
General obligation debt	5,912,954
Capital lease	48,206
Payment to escrow agent for refunding	<u>1,999,938</u>
Net adjustment to increase <i>net changes in fund balances- total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 3,636,693</u>

Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$(1,015,880) difference are as follows:

Net other post-employment benefit obligation	\$ (28,843)
Compensated absences	(979,275)
Net pension obligation	(80,854)
Accrued interest	33,719
Amortization of deferred charge on refunding	(137,272)
Amortization of issuance costs	(95,346)
Amortization of bond premiums	<u>271,991</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (1,015,880)</u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

III. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual, appropriated budgets are adopted for the general fund, health fund and general obligation debt fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds and the grant fund.

Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of a resolution.

Expenditures may not legally exceed appropriations at the fund level for each legally adopted annual budget. The City Council made supplemental budgetary appropriation changes during the fiscal year. In addition, transfer of appropriations between funds requires the approval of the City Council. The reported budgetary data has been revised for these amendments legally authorized during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Outstanding encumbrances for governmental funds as of September 30, 2013 are \$1,491,332 for the general fund and \$11,135,657 for other nonmajor funds.

B. Deficit Fund Position

Deficit net position in individual nonmajor funds at September 30, 2013 consist of the following:

	Net		Total
	<u>Investment in</u>	<u>Unrestricted</u>	<u>Net Position</u>
	<u>Capital Assets</u>		
Nonmajor Enterprise Fund:			
Cottonwood Creek Golf Course	\$ 1,047,283	(1,238,759)	(191,476)
Nonmajor Internal Service Fund:			
Engineering Fund	97,399	(107,197)	(9,798)

City of Waco, Texas

Notes to Financial Statements (Continued)

III. Stewardship, Compliance and Accountability

B. Deficit Fund Position (continued)

The Cottonwood Creek Golf Course Fund is used to account for the City's golf course facility. Operations continue to be reviewed with emphasis on improving pro shop and concession operations. The change in net position was \$(61,208) for the fiscal year.

The Engineering Fund is used to account for engineering services to other City departments. The charges for these services continue to be monitored and reviewed. Necessary adjustments have been made to ensure that adequate revenue is generated to cover expenses and to eliminate this deficit.

IV. Detail Notes on All Funds

A. Deposits and Investments

As of September 30, 2013, the City had the following investments:

Investment	Fair Value	Percent of Portfolio	Weighted Average Maturity (in years)
Texas Local Government Investment Pool (TexPool)	\$ 2,272,978	5.67%	-
Texas Short-Term Asset Reserve (TexSTAR)	<u>877,329</u>	<u>2.19%</u>	-
Total local government investment pools	3,150,307	7.86%	-
U. S. Federal agency securities	<u>36,965,600</u>	<u>92.14%</u>	1.92
Total investments	<u>\$ 40,115,907</u>	<u>100.00%</u>	1.76

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the maturities of its investments as follows: maturities of U. S. Treasury obligations, U. S. Federal agency securities and repurchase agreements cannot exceed three years. Further, the weighted average maturity of the City's investment portfolio shall at no time exceed one year.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

A. Deposits and Investments (continued)

Credit Risk

For an investment, credit risk is the risk that an investment issuer or other counterparty to an investment will not fulfill obligations. Texas Government Code Chapter 2256, Public Funds Investment Act, restricts the types of investments in which the City may invest. The City's investment policy addresses credit quality by further restricting authorized investments to the following:

- U. S. Treasury obligations
- Other obligations of the U. S. Government guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States.
- U. S. Federal agency securities
- Repurchase agreements and flexible repurchase agreements, collateralized by U. S. Treasury obligations or U. S. federal agency securities, or by pass-through mortgage-backed securities issued by the U. S. federal agencies.
- Money market mutual funds rated not less than AAAM by Standard & Poor's, Aaa by Moody's or AAA/V1+ by Fitch
- Local Government investment pools rated not less than AAAM by Standard & Poor's, Aaa by Moody's or AAA/V1+ by Fitch

The City's investments in TexPool and TexSTAR are rated AAAM by Standard & Poor's; and U. S. Federal agency securities are rated AAA by Fitch, Aaa by Moody's, and AA+ by Standard and Poor's.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments in the securities of a single issuer. The City's investment policy includes an investment objective of seeking diversification to avoid unreasonable risk. More than 5% of the City's investments at September 30, 2013 were in securities of the following issuers:

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

A. Deposits and Investments (continued)

Concentration of Credit Risk (continued)

U. S. Agency Issuer	Fair Value	Percent of Portfolio
Federal Farm Credit Bank	\$ 3,993,300	9.95%
Federal Home Loan Bank	3,997,800	9.97%
Federal Home Loan Mortgage Corporation	16,997,000	42.37%
Federal National Mortgage Association	11,977,500	29.86%

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City policy requires all deposits to be fully secured in accordance with the Texas Government Code, Chapter 2257, by either surety bonds, letters of credit of the United States or its agencies and instrumentalities, or by eligible securities held by an independent third-party custodian.

For an investment, custodial credit risk is the risk that in the event of the failure of the counter-party, the City would not be able to recover the value of its investment or collateralized securities that are in the possession of an outside third party. The City's investment policy requires that the purchase of investment securities be settled on a delivery basis and that ownership of all securities be perfected in the name of the City.

Reconciliation of Cash and Investments

Carrying amount of deposits and cash on hand	\$ 140,657,854
Carrying amount of investments	<u>40,115,907</u>
Total	<u><u>\$ 180,773,761</u></u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

A. Deposits and Investments (continued)

Reconciliation of Cash and Investments (continued)

Cash and investments - governmental activities	\$ 83,790,260
Cash and investments - business-type activities	61,642,652
Restricted cash and investments - business-type activities	31,458,254
Component units	36,556
Agency funds	2,803,939
Other participants' undivided interest in WMARSS cash and investments	<u>1,042,100</u>
Total	<u>\$ 180,773,761</u>

The City issues certificates of obligation to fund capital projects for governmental and business-type activities. Interest earnings on the unspent proceeds of all certificates of obligation are accounted for in the capital projects fund.

Local Government Investment Pools

TexPool. The Comptroller of Public Accounts (the Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (the Trust Company) which is authorized to operate TexPool. Federated Investors, Inc. provides asset management services to TexPool. Additionally, the 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. TexPool uses amortized cost rather than fair value to report net assets to compute share prices.

TexSTAR. TexSTAR is a Texas public funds investment pool that is co-administered by J.P. Morgan Fleming Asset Management and First Southwest Asset Management, Inc. TexSTAR is managed by a five-member governing board comprised of three representatives of eligible governmental entities and one member designated by each of the co-administrators. The pool uses amortized cost rather than the fair value to report net assets to compute share prices.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

B. Receivables (continued)

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Solid Waste</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$ 7,342,335	-	-	-	498,653	7,840,988
Accounts	16,059,392	7,888,003	3,975,851	3,507,134	711,923	32,142,303
Special assessments	-	-	-	-	2,258	2,258
Intergovernmental	1,391,071	-	112,054	-	6,064,835	7,567,960
Notes	1,000	-	596,517	-	7,349,935	7,947,452
Gross receivables	<u>24,793,798</u>	<u>7,888,003</u>	<u>4,684,422</u>	<u>3,507,134</u>	<u>14,627,604</u>	<u>55,500,961</u>
Less: allowance for uncollectibles	<u>12,510,031</u>	<u>1,644,338</u>	<u>1,075,323</u>	<u>1,360,492</u>	<u>4,613,309</u>	<u>21,203,493</u>
Net total receivables	<u>\$ 12,283,767</u>	<u>6,243,665</u>	<u>3,609,099</u>	<u>2,146,642</u>	<u>10,014,295</u>	<u>34,297,468</u>

In the general fund, \$922,221 of the intergovernmental receivable reported is not expected to be collected until fiscal year 2015.

Revenues of the water, wastewater, and solid waste funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water sales	\$ 12,867
Uncollectibles related to wastewater charges	10,386
Uncollectibles related to solid waste charges	<u>6,212</u>
Total uncollectibles of the current fiscal year	<u>\$ 29,465</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

B. Receivables (continued)

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General fund:			
Delinquent property taxes receivable	\$ 1,370,506	-	1,370,506
Notes receivable	1,000	-	1,000
Intergovernmental receivable	922,221	-	922,221
Other	471,428	1,131,368	1,602,796
General obligation debt fund:			
Delinquent property taxes receivable	382,308	-	382,308
Grant fund:			
Notes receivable	2,762,113	-	2,762,113
Grant drawdowns	-	2,510	2,510
Tax increment fund No. 1:			
Delinquent property taxes receivable	72,455	-	72,455
Waco Public Improvement District No. 1 fund:			
Special assessments	-	2,258	2,258
	<u>\$ 5,982,031</u>	<u>1,136,136</u>	<u>7,118,167</u>

C. Capital Assets

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

	<u>Primary Government</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>October 1,</u>			<u>September 30,</u>
	<u>2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>2013</u>
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 43,243,517	1,572,755	-	44,816,272
Construction in progress	18,481,817	11,576,569	(24,378,751)	5,679,635
Total capital assets not being depreciated	<u>61,725,334</u>	<u>13,149,324</u>	<u>(24,378,751)</u>	<u>50,495,907</u>
Capital assets, being depreciated:				
Buildings	55,614,972	12,542,808	(108,589)	68,049,191
Machinery and equipment	41,068,918	5,435,463	(2,099,413)	44,404,968
Improvements other than buildings	50,667,577	6,757,050	(789,584)	56,635,043
Infrastructure	250,834,919	9,312,278	-	260,147,197
Total capital assets being depreciated	<u>398,186,386</u>	<u>34,047,599</u>	<u>(2,997,586)</u>	<u>429,236,399</u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

	Primary Government			Balance September 30, 2013
	Balance October 1, 2012	Increases	Decreases	
Governmental activities: (continued)				
Less accumulated depreciation:				
Buildings	\$ 13,346,005	2,225,108	(107,599)	15,463,514
Machinery and equipment	28,369,222	3,354,713	(1,432,563)	30,291,372
Improvements other than buildings	21,068,951	2,806,993	(789,584)	23,086,360
Infrastructure	145,574,943	6,599,083	-	152,174,026
Total accumulated depreciation	<u>208,359,121</u>	<u>14,985,897</u>	<u>(2,329,746)</u>	<u>221,015,272</u>
Total capital assets, being depreciated, net	<u>189,827,265</u>	<u>19,061,702</u>	<u>(667,840)</u>	<u>208,221,127</u>
Total capital assets, net	<u>\$ 251,552,599</u>	<u>32,211,026</u>	<u>(25,046,591)</u>	<u>258,717,034</u>
Business-type activities:				
Capital assets, not being depreciated/ amortized:				
Land	\$ 6,311,458	-	-	6,311,458
Construction work in progress	7,635,810	14,296,895	(12,043,318)	9,889,387
Museum collections	2,116,424	17,000	-	2,133,424
Total assets not being depreciated/amortized	<u>16,063,692</u>	<u>14,313,895</u>	<u>(12,043,318)</u>	<u>18,334,269</u>
Capital assets, being depreciated/amortized:				
Buildings	81,753,761	85,214	(746,009)	81,092,966
Machinery and equipment	45,060,741	3,340,795	(3,587,765)	44,813,771
Improvements other than buildings	457,101,862	12,246,774	(192,552)	469,156,084
Water rights - impound fee	32,482,879	-	-	32,482,879
Total capital assets, being depreciated/amortized	<u>616,399,243</u>	<u>15,672,783</u>	<u>(4,526,326)</u>	<u>627,545,700</u>
Less accumulated depreciation/amortization:				
Buildings	27,279,181	2,688,730	(318,189)	29,649,722
Machinery and equipment	28,124,522	4,403,190	(3,652,385)	28,875,327
Improvements other than buildings	148,980,371	14,804,211	(98,424)	163,686,158
Water rights - impound fee	6,982,887	926,820	-	7,909,707
Total accumulated depreciation/amortization	<u>211,366,961</u>	<u>22,822,951</u>	<u>(4,068,998)</u>	<u>230,120,914</u>
Total capital assets being depreciated/amortized, net	<u>405,032,282</u>	<u>(7,150,168)</u>	<u>(457,328)</u>	<u>397,424,786</u>
Total capital assets, net	<u>\$ 421,095,974</u>	<u>7,163,727</u>	<u>(12,500,646)</u>	<u>415,759,055</u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

Governmental activities:

General government	\$ 716,335
Public works	7,029,040
Public safety	2,963,891
Culture and recreation	4,218,195
Public health	55,035
Housing and community development	<u>3,401</u>
Total depreciation expense - governmental activities	 <u>\$ 14,985,897</u>

Depreciation/amortization expense was charged to functions/programs as follows:

Business-type activities:

Water	\$ 8,882,607
Wastewater	4,553,863
Solid waste	3,901,930
Airport	1,875,050
Convention services	826,076
Ranger Hall of Fame	122,585
Cameron Park Zoo	1,178,324
Transit services	1,299,025
Cottonwood Creek Golf Course	<u>183,491</u>
Total depreciation/amortization expense - business-type activities	 <u>\$ 22,822,951</u>

Construction commitments

The City has active construction projects as of September 30, 2013. At year-end, the City's commitments with contractors are as follows:

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

Construction commitments (continued)

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitments</u>
Street projects	\$ 1,516,668	2,298,188
Water projects	3,019,888	3,614,686
Wastewater projects	3,482,935	2,529,202
Airport projects	2,931,010	1,515,514
Parks projects	1,317,842	1,386,445
Fire projects	1,218,024	1,090,436
Other projects	<u>2,082,655</u>	<u>262,480</u>
Total	<u>\$ 15,569,022</u>	<u>12,696,951</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2013 is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor business-type	Nonmajor governmental	\$ 139,221
General	Nonmajor governmental	1,073,769
General	Nonmajor business-type	2,331,634
Nonmajor governmental	Nonmajor governmental	5,461,298
Nonmajor governmental	Internal service	470,073
Nonmajor governmental	General	<u>886,859</u>
		<u>\$ 10,362,854</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.

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

D. Interfund Receivables, Payables and Transfers (continued)

Advances to/from other funds

Receivable Fund	Payable Fund	Amount
Water	Nonmajor business-type	\$ 525,336
Nonmajor governmental	Nonmajor business-type	168,368
		\$ 693,704

All advances resulted from loans to Cottonwood Creek Golf Course fund made for operating and capital improvements since the City took over management responsibilities. Amounts are not expected to be paid within the next fiscal year.

Interfund transfers

	Transfer in			Total
	General	Nonmajor Governmental	Nonmajor Enterprise	
Transfers out:				
General	\$ -	7,487,898	3,139,249	10,627,147
Water	3,100,362	-	-	3,100,362
Wastewater	771,733	-	-	771,733
Solid waste	312,336	-	-	312,336
Nonmajor governmental	450,000	2,068,711	-	2,518,711
Internal service	-	744,670	-	744,670
Total transfers	\$ 4,634,431	10,301,279	3,139,249	18,074,959

Transfers are used to (1) move revenues from the fund responsible for collecting them to the fund responsible for expending them as required by statute or budget, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended September 30, 2013, the City made payments from various funds to the general fund in lieu of taxes. The City reported these payments as transfers. Transfers were made from the following funds in the following amounts.

Water	\$ 3,100,362
Wastewater	771,733
Solid waste	312,336

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

E. Leases

Operating leases

The government leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases were \$736,567 for the year ended September 30, 2013. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>		
2014	\$	482,734
2015		<u>293,446</u>
Total	\$	<u><u>776,180</u></u>

Capital Leases

The government has acquired certain capital assets for governmental activities through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Governmental activities:			
Computer equipment	\$ <u>145,351</u>	<u>72,676</u>	<u>72,675</u>
Total	\$ <u><u>145,351</u></u>	<u><u>72,676</u></u>	<u><u>72,675</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013, are as follows:

<u>Year Ending September 30,</u>		<u>Governmental Activities</u>
2014	\$	49,938
2015		<u>12,485</u>
Total minimum lease payments		62,423
Less: amount representing interest		<u>815</u>
Present value of minimum lease payments	\$	<u><u>61,608</u></u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

F. Long-term Debt

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. The original amount of general obligation bonds issued in prior years was \$268,890,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as twenty-year serial bonds with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.00% - 6.00%	\$ 76,635,000
Governmental activities - refunding	2.00% - 5.00%	14,180,143
Business-type activities	2.00% - 6.00%	109,815,000
Business-type activities - refunding	2.00% - 5.00%	108,474,857
		\$ 309,105,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 5,340,143	3,786,173	11,644,857	8,854,331
2015	5,540,000	3,551,353	11,570,000	8,290,404
2016	5,695,000	3,340,264	11,660,000	7,865,912
2017	5,930,000	3,117,491	12,215,000	7,398,313
2018	6,165,000	2,880,569	12,015,000	6,921,537
2019 - 2023	31,125,000	10,557,597	61,145,000	26,856,271
2024 - 2028	27,205,000	3,434,005	45,070,000	15,365,244
2029 - 2033	3,815,000	245,948	37,145,000	7,054,628
2034 - 2037	-	-	15,825,000	1,202,032
Total	\$ 90,815,143	30,913,400	218,289,857	89,808,672

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

F. Long-term Debt (continued)

Advance and Current Refunding

The government issued \$43,660,000 of general obligation refunding bonds to (1) provide resources to purchase U. S. state and local government services securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$27,900,000 of general obligation bonds, and (2) provide resources to currently refund the \$15,000,000 state participation loan and \$5,090,109 of deferred interest. As a result, the refunded bonds and state participation loan are considered to be defeased and the liabilities have been removed from the governmental and business-type activities columns of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$758,680. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance and current refunding was undertaken to reduce total debt service payments over the next twenty years by \$11,982,025 and resulted in an economic gain of \$9,380,970.

Defeasance of bonds

In the current year and in prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On September 30, 2013, \$28,105,000 of bonds considered defeased are still outstanding.

Note payable

The City has entered into an agreement with the City of West, Texas to supply water for 40 years pursuant to an agreed-upon rate structure. As part of the agreement, the City purchased a pump station and water transmission line for \$12,814 monthly for 18 years and \$6,632 monthly for 22 years. Interest is imputed at 4.35% over the term of the agreement.

Year Ending September 30,	Business-Type Activities	
	Principal	Interest
2014	\$ 69,469	84,293
2015	72,555	81,208
2016	75,777	77,986
2017	79,142	74,620
2018	82,657	71,105

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

F. Long-term Debt (continued)

Note payable (continued)

Year Ending September 30,	Business-Type Activities	
	Principal	Interest
2019 - 2023	\$ 465,539	297,090
2024 - 2028	171,169	226,741
2029 - 2033	212,708	185,202
2034 - 2038	264,328	133,582
2039 - 2043	328,475	69,435
2044 - 2045	146,087	6,445
Total	\$ 1,967,906	1,307,707

Other long-term debt information

Proceeds from general obligation bonds are subject to arbitrage rebate regulations. Estimated rebatable arbitrage has been recorded as a reduction to interest on investments.

During 1985, the City entered into a development agreement which provided that the City repay \$830,000 for public improvements at an interest rate not to exceed 8%. Repayment of principal and accrual of interest will not begin until revenue is received from the area designated in the development agreement. Annual requirements will be based on the revenue generated from future developments, which cannot be reasonably estimated at September 30, 2013.

There is no specific maximum debt limit established by law for the City; therefore, the limit is governed by the City's ability to levy and collect taxes. The City's maximum legal rate is \$1.85 per \$100 valuation; the current tax rate is \$0.786232 per \$100 valuation.

The various bond obligations contain certain financial limitations and restrictions. The ordinances authorizing the issuance of general obligation bonds created an interest and sinking fund (general debt service fund). The ordinances require the City to ascertain a rate and amount of tax which will be sufficient to pay interest as it comes due and provide a reserve fund which is adequate to meet principal as it matures. The City is in compliance with all such significant financial restrictions.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detailed Notes on All Funds (continued)

F. Long-term Debt (continued)

Refundable contracts

The City maintains a policy of refunding to subdivision developers certain costs for the construction of water and wastewater improvements and streets and drainage facilities, applicable to single family housing developments. The policy was created to encourage the construction of single family residences within the corporate limits of the City. Amounts under contract which have not yet been refunded of \$1,875,185 have been recorded as a liability in the accompanying statement of net assets.

Changes in long-term liabilities

Long-term liability activity (shown in thousands of dollars) for the year ended September 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities</u>					
Bonds payable:					
General obligation bonds	\$ 94,763	3,875	7,823	90,815	5,340
Plus: premium on bonds	1,471	486	334	1,623	-
Less: deferred amount on refundings	(763)	(42)	(137)	(668)	-
Total bonds payable	<u>95,471</u>	<u>4,319</u>	<u>8,020</u>	<u>91,770</u>	<u>5,340</u>
Capital leases	110	-	48	62	49
Contracts payable	830	-	-	830	-
Refundable contracts	80	-	-	80	-
Estimated claims and judgments	3,063	12,902	12,695	3,270	3,270
Compensated absences	16,614	11,183	10,199	17,598	10,154
Net pension obligation	9,913	694	610	9,997	-
Net OPEB obligation	203	91	62	232	-
Total long-term liabilities	<u>30,813</u>	<u>24,870</u>	<u>23,614</u>	<u>32,069</u>	<u>13,473</u>
Governmental activity long-term liabilities	<u>\$ 126,284</u>	<u>29,189</u>	<u>31,634</u>	<u>123,839</u>	<u>18,813</u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

F. Long-term Debt (continued)

Changes in long-term liabilities (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type activities:</u>					
Bonds payable:					
General obligation bonds	\$ 204,587	51,665	37,962	218,290	11,645
Plus: premium on bonds	5,640	5,711	1,560	9,791	-
Less: deferred amount on refundings	(3,020)	(718)	(410)	(3,328)	-
Total bonds payable	<u>207,207</u>	<u>56,658</u>	<u>39,112</u>	<u>224,753</u>	<u>11,645</u>
Refundable contracts	1,818	279	302	1,795	352
Estimated landfill closure	4,052	238	-	4,290	-
State participation loan	15,000	-	15,000	-	-
Note payable	2,034	-	66	1,968	69
Compensated absences	2,861	1,879	1,806	2,934	1,935
Net pension obligation	1,670	117	102	1,685	-
Deferred interest payable	5,090	-	5,090	-	-
Total long-term liabilities	<u>32,525</u>	<u>2,513</u>	<u>22,366</u>	<u>12,672</u>	<u>2,356</u>
Business-type activity long-term liabilities	<u>\$ 239,732</u>	<u>59,171</u>	<u>61,478</u>	<u>237,425</u>	<u>14,001</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$391,155, \$371,674, and \$3,270,019 of internal service funds compensated absences, net pension obligations and estimated claims and judgments, respectively, are included in the above governmental amounts. Also, for the governmental activities, compensated absences, net pension obligation, other post-employment benefits, and capital leases are generally liquidated by the general fund. Refundable contracts are liquidated by the street and drainage refundable contracts debt service fund.

G. Restricted Assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

G. Restricted Assets (continued)

Customer deposits	\$ 2,508,880
Bond construction account	28,862,956
Capital grants and contributions	<u>86,418</u>
Total restricted assets	<u>\$ 31,458,254</u>

H. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City has established the insurance fund and health insurance fund (internal services funds) to account for and finance its risk management activities. All funds participate in these programs and make payments to these funds based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish reserves for catastrophe losses. The reserves for catastrophic losses were approximately \$6,000,000 at September 30, 2013.

Liabilities of the funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, federal and state mandated programs, changes in legal doctrines, damage awards (including frequency and amount of payouts), and economic and social trends. Accordingly, claims are reevaluated periodically to consider the effects of such factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

The insurance fund provides coverage for up to a maximum of \$450,000 for each non-civil service workers' compensation claim and \$600,000 for each civil service workers' compensation claim. The City purchases commercial insurance for workers' compensation claims in excess of coverage provided by the fund. For general liability claims prior to fiscal year 2002, the insurance fund provided

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detailed Notes on All Funds (continued)

H. Risk Management (continued)

coverage for up to \$250,000 for each individual and \$500,000 aggregate for general liability claims and up to \$100,000 for each property damage claim. Beginning with fiscal year 2002, the insurance fund provides commercial insurance for each general liability or property damage claim. The City purchases commercial insurance for claims in excess of \$50,000. The commercial liability insurance limits are \$1,000,000 per occurrence for general liability with a \$2,000,000 annual aggregate, except for law enforcement liability for which the limits are \$5,000,000 per occurrence and \$10,000,000 annual aggregate. The commercial insurance limits for the City's property coverages are: \$10,000,000 aggregate for automobile catastrophe, \$383,959,031 aggregate for real and personal property, \$12,198,395 aggregate for mobile equipment and \$5,000,000 per accident for boiler and machinery.

Effective January 1, 2006, the City began to self-insure for health insurance claims. Starting in fiscal year 2013, the City has \$1,800,000 stop-loss protection for individual claims exceeding \$200,000, as well as aggregate protection of \$2,000,000 for claims exceeding 125% of expected annual claims.

There have been no claim settlements in excess of the insurance coverages that have been procured in 2013, 2012, or 2011. Changes in the amounts of estimated unpaid liability claims during the past two years are as follows (shown in thousands of dollars):

	<u>2013</u>	<u>2012</u>
Unpaid claims, beginning of fiscal year	\$ 3,063	3,607
Incurred claims (including IBNRs)	12,902	12,285
Claim payments	<u>(12,695)</u>	<u>(12,829)</u>
Unpaid claims, end of fiscal year	<u>\$ 3,270</u>	<u>3,063</u>

I. Contingent Liabilities

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 that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

I. Contingent Liabilities (continued)

There are currently several claims and lawsuits pending against the City. It is the opinion of the City Attorney and management that there is not pending litigation against the City that, if decided against the City, would have a material adverse effect upon the operations of the City or that would exceed the contingency amounts set aside for such purpose.

J. Commitments

Water storage rights in Lake Waco were acquired by contract with Brazos River Authority in 1965. Total consideration for the water storage rights over the fifty-year term is \$9,416,500 with payments of \$188,330 due annually. Such payments are reported as operating deductions of the water fund in the year the payments are made.

Additionally, the City Council has approved \$2,592,504 to be refunded to subdivision developers for certain costs for the construction of water improvements once applicable contract requirements are met.

In August 2012, the City Council approved an amendment to the project/financing plan for reinvestment zone number one to provide partial funding via a grant of up to \$35,060,340 to assist with infrastructure improvements for the new stadium/community events complex at Baylor University. The first payment of \$8,006,034 was funded in 2013. This annual grant funding is limited to tax increment revenue collected each year from the reinvestment zone number one as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 3,006,034
2015	3,006,034
2016	3,006,034
2017	3,006,034
2018	3,006,034
2019	3,006,034
2020	3,006,034
2021	3,006,034
2022	3,006,034

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

K. Other Post-employment Benefits

Plan Description - The City administers a single-employer defined benefit life insurance plan. The plan provides \$2,500 of life insurance to each qualified retiree. An optional \$5,000 in life insurance is available at the retiree's expense. According to the City's personnel policy, retirees who have retired under the Texas Municipal Retirement System with a minimum of twenty years of service are eligible for postretirement life insurance benefits.

Actuarial methods and assumptions

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

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

Actuarial Methods and Assumptions

Type of benefit	Life insurance only
Inflation rate	3.0% per annum
Investment rate of return	4.50%, net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.0% per annum

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

K. Other Post-employment Benefits (continued)

Actuarial methods and assumptions (continued)

retiree life insurance plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the current year is as follows:

Reconciliation of Net Other Post-employment Benefit Obligation

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual Required Contribution (ARC)	\$ 90,198	87,571	92,976
Interest on OPEB obligation	9,156	7,834	5,754
Adjustment to the ARC (amortization)	<u>(8,483)</u>	<u>(7,258)</u>	<u>(7,679)</u>
Annual OPEB cost	90,871	88,147	91,051
Contributions made	<u>(62,028)</u>	<u>(58,769)</u>	<u>(44,832)</u>
Increase in net OPEB obligation	28,843	29,378	46,219
Net OPEB obligation, beginning of year	<u>203,473</u>	<u>174,095</u>	<u>127,876</u>
Net OPEB obligation, end of year	<u>\$ 232,316</u>	<u>203,473</u>	<u>174,095</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2013 and the preceding two fiscal years were as follows:

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

K. Other Post-employment Benefits (continued)

Actuarial methods and assumptions (continued)

Fiscal Year Ending	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
September 30, 2013	\$ 90,871	62,028	68.3%	\$ 232,316
September 30, 2012	88,147	58,769	66.7%	203,473
September 30, 2011	91,051	44,832	49.2%	174,095

Funding status and funding progress

The following schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time. The actuarial valuation is performed on a bi-annual basis.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	\$ -	1,646,618	1,646,618	0%	\$ 67,309,969	2.4%
12/31/2009	-	1,119,718	1,119,718	0%	66,925,539	1.7%
12/31/2007	-	973,424	973,424	0%	64,258,478	1.5%

Under the reporting parameters, the City's retiree life insurance plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$1,646,618 at December 31, 2011. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 2.4%

L. Pension Plans – Primary Government

Deferred compensation plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

L. Pension Plans – Primary Government (continued)

Defined benefit plan – Texas Municipal Retirement System

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 the 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:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5 years
Updated service credit	100% repeating, transfers
Annuity increase (to retirees)	50% of CPI (ad hoc)

Members can retire at certain ages, based on the years of service with the City. The service retirement eligibilities for the City (expressed as years of service/age) are:

5 years/age 60
20 years/any age

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

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

L. Pension Plans – Primary Government (continued)

Defined benefit plan – Texas Municipal Retirement System (continued)

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.

Beginning with the December 31, 2007 valuation, TMRS utilizes the Projected Unit Credit actuarial cost method which facilitates advance funding for future updated service credits and annuity increases. This method generally results in higher required contributions and lower funded ratios. To assist in this transition to higher rates, TMRS approved an optional eight-year phase-in period beginning in 2009, which allows the City the opportunity to increase their contributions gradually (approximately 12.5% each year) to their required contribution rate. The City Council approved a plan change to turn off annually repeating annuity increases for retirees effective January 1, 2012. This plan change reduced the City’s contribution rate and eliminated the phase-in rate.

Reconciliation of Net Pension Obligation

	2013	2012	2011
Annual Required Contribution (ARC)	\$ 9,887,587	11,186,956	16,443,862
Interest on net pension obligation	810,818	748,435	532,155
Adjustment to the ARC	(712,369)	(643,355)	(440,298)
Annual pension cost	9,986,036	11,292,036	16,535,719
Contributions made	(9,887,587)	(10,400,853)	(12,939,192)
Increase in net pension obligation	98,449	891,183	3,596,527
Net pension obligation, beginning of year	11,583,115	10,691,932	7,095,405
Net pension obligation, end of year	\$ 11,681,564	11,583,115	10,691,932

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

L. Pension Plans – Primary Government (continued)

Defined benefit plan – Texas Municipal Retirement System (continued)

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>Annual Required Contribution Rate</u>
2013	\$ 9,986,037	99%	\$ 11,681,564	13.87%
2012	11,292,035	92%	11,583,115	14.04%
2011	16,535,719	78%	10,691,932	24.47%

The required contribution rate for fiscal year 2013 was determined as part of the December 31, 2010 and 2011 actuarial valuations. The actuarial assumptions at December 31, 2010 and 2011 follow, along with additional information as of the latest actuarial valuation, December 31, 2012:

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	26.5 years; closed period	24.3 years; closed period	24.1 years; 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	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	1.5%	0.0%

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

L. Pension Plans – Primary Government (continued)

Defined benefit plan – Texas Municipal Retirement System (continued)

The funded status as of December 31, 2012 and the preceding two years is presented as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12-31-2010	\$ 286,038,376	342,006,589	83.6%	\$ 55,968,213	67,622,089	82.8%
12-31-2011	307,003,573	354,381,011	86.5%	47,728,649	67,309,969	70.9%
12-31-2012	326,364,520	368,305,448	88.6%	41,940,928	68,731,468	61.0%

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.

M. Fire and Police One-half Pay Pension

The City funded on a pay-as-you-go basis and administered a one-half single-employer defined benefit pension plan for employees who were not eligible to participate when TMRS was adopted. Any policeman, fireman or fire alarm operator employed by the City prior to September 12, 1950, and their named dependents are entitled to benefits under this plan. Employees were able to retire after 25 years of service. The City Council passed an ordinance for pension pay equal to one-half of the salary for each employee at the time of retirement.

There are five retired firemen and policemen under this plan with no eligible active employees.

An actuarial valuation has not been performed on this plan due to its small relative size. The estimated unfunded liability based on the present value of future benefits with a 7.5 percent interest rate assumption is \$153,176 at September 30, 2013.

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

M. Fire and Police One-half Pay Pension (continued)

These benefits are budgeted and recorded in the general fund as expenditures in the year paid. Total costs of these paid benefits for the three years ended September 30, are as follows:

2013	\$ 46,382
2012	48,564
2011	52,164

N. Solid Waste Landfill Closure and Post-closure Care Cost

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of usage of the landfill to date. The estimated liability for landfill closure and post-closure care costs included in accrued liabilities is \$4,290,174 as of September 30, 2013, which is based on 67% usage (filled) of the landfill. It is estimated that an additional \$2,111,933 will be recognized as closure and post-closure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2023). The estimated total current cost of the landfill closure and post-closure care (\$6,402,107) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of September 30, 2013. However, the actual cost of closure and post-closure care may change due to inflation, changes in technology, or changes in landfill laws and regulations.

O. Conduit Debt Obligations

From time to time, Central Waco Development Corporation and Waco Health Facilities Development Corporation have issued industrial revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial, commercial and health facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage debt. Upon repayment of the bonds, ownership of the facilities transfers to the private-sector entity served by the bond issue. Neither Central Waco Development Corporation, Waco Health Facilities Development Corporation, the City, nor any political subdivision thereof is obligated

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detailed Notes on All Funds (continued)

O. Conduit Debt Obligations (continued)

in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements of Central Waco Development Corporation, Waco Health Facilities Development Corporation, or the City.

As of September 30, 2013, there are five series of industrial revenue bonds outstanding. The aggregate principal amount payable for the three series issued after July 1, 1995 was \$228,700,000. The aggregate principal amount payable for the two series issued prior to July 1, 1995 could not be readily determined; however, their original issue amounts totaled \$4,850,000.

P. Waco Public Improvement District #2

Waco Public Improvement District #2 transactions are recorded in an agency fund as the City acts as an agent for the property owner in collecting assessments and forwarding the collections to the bondholders. However, the City is not obligated in any manner for repayment of these special assessments. As of September 30, 2013, such special assessment debt outstanding totaled \$1,356,000.

Q. Undivided Interest in Waco Metropolitan Area Regional Sewer System

During 2004, the City entered into an agreement with four other participating cities to acquire the facilities and operations of the Waco Metropolitan Area Regional Sewer System (the System) from Brazos River Authority (the Authority). Prior to the acquisition, the cities were "tenants in common" of the System owned by the Authority, and funded the System through payments to the Authority based on the amount of wastewater treated.

The City's initial purchase included an 84.47% undivided interest in the System; however, the City subsequently sold portions of its undivided interest to other cities leaving it with a 79.234% undivided interest in the System. The City's undivided interest in the System as of September 30, 2013 was 75.272% as a result of certain capacity expansion improvements completed during 2012.

The City assisted four of the participating cities in financing their initial investments. During 2004, the City's wastewater fund advanced \$1,849,058 to the four participating cities at an interest rate of 3.65% to be repaid in annual installments through February 2024. As of September 30, 2013, \$596,517 of principal remained outstanding on these loans.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detailed Notes on All Funds (continued)

Q. Undivided Interest in Waco Metropolitan Area Regional Sewer System (continued)

Under the interlocal agreement for the System, a board was created consisting 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 board; however, a separate legal entity was not created. The agreement allows the cities to pool resources and share the costs, risks, and rewards of providing services. Further, each city retains an 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 wastewater fund as follows:

Current assets	\$ 7,816,844
Capital assets	32,964,454
Current liabilities	(691,193)
Noncurrent liabilities	<u>(142,502)</u>
Net position	<u>\$ 39,947,603</u>
Operating revenue	\$ 768,788
Operating expenses	(4,076,273)
Non-operating revenue	<u>14,415</u>
Change in net position	<u>\$ (3,293,070)</u>

R. Related Organization

Waco Education Finance Corporation is a related organization to which the City appoints board members but for which the City has no significant financial accountability.

S. Authoritative Pronouncements Not Yet Effective

A summary of pronouncements issued by the Governmental Accounting Standards Board (GASB) which may impact the City but are not yet effective follows. The City has not yet determined the effects of the adoption of these pronouncements on the financial statements.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detailed Notes on All Funds (continued)

S. Authoritative Pronouncements Not Yet Effective (continued)

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (issued March 2012) – The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* (issued June 2012) – the objective of this statement is to improve financial reporting by state and local governmental pension plans by establishing standards of reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (issued June 2012) – the objective of this statement is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (issued January 2013) – the objective of this statement is to provide specific accounting and financial reporting guidance for combinations in the governmental environment. Additionally, this statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (issued April 2013) – the objective of this statement is to enhance comparability of financial statements among governments by requiring

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detailed Notes on All Funds (continued)

S. Authoritative Pronouncements Not Yet Effective (continued)

consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This statement will also enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

[Form of Opinion of Bond Counsel]

[Closing Date]

\$9,650,000

CITY OF WACO, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION
SERIES 2014

WE HAVE represented The City of Waco, Texas (the “Issuer”), as its bond counsel in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

CITY OF WACO, TEXAS, COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2014, dated February 15, 2014.

The Certificates mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Certificates and in the Ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Ordinance”).

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We 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. 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.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain

proceedings of the Issuer, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the Issuer; and
- (B) A continuing ad valorem tax upon all taxable property within the City of Waco, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of the surplus revenues of the Issuer's waterworks and sewer system as provided in the Ordinance.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that:

- (1) Interest on the Certificates is excludable from gross income of the owners thereof for federal income tax purposes under existing law; and
- (2) The Certificates are not "private activity bonds" within the meaning of the Code, and, as such, interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Certificates will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the Underwriters with respect to matters solely within the knowledge

of the Issuer, the Issuer's Financial Advisor and the Underwriters, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U.S. may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.