

OFFICIAL NOTICE OF SALE, BID FORM

and

PRELIMINARY OFFICIAL STATEMENT

\$2,000,000*

CITY OF LACY LAKEVIEW, TEXAS

(A municipal corporation of the State of Texas located in McLennan County, Texas)

**COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2016**

Bids Due

Tuesday, September 27, 2016

at

11:00 A.M., Central Time

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This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Certificates defined and described herein. The invitation for bids on the Certificates is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

OFFICIAL NOTICE OF SALE

\$2,000,000*

CITY OF LACY LAKEVIEW, TEXAS

(A municipal corporation of the State of Texas located in McLennan County, Texas)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2016

THE SALE

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID: The City of Lacy Lakeview, Texas (the "City" or the "Issuer") is offering for sale at competitive bid its \$2,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Certificates"). Bidders may submit bids for the Certificates by either of the following methods:

- (1) Submit bids electronically as described below in "BIDS BY INTERNET" or
- (2) Submit bids by facsimile as described below in "BIDS BY FACSIMILE."

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central time, on Tuesday, September 27, 2016. Bidders submitting a bid by internet **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 11:00 A.M., Central time, on Monday, September 26, 2016 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile, as described below. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, Official Bid Form, and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone 212-849-5021.

An electronic bid made through the facilities of the PARITY System shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Issuer. The Issuer shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being the sole risk of the prospective bidder.

BIDS BY FACSIMILE: Interested bidders may, at their option and risk, submit their bid by facsimile, using the Bid Form provided herein, to the City's Financial Advisor, John L. Martin, Jr. at (214) 953-4050 by 11:00 A.M., Central time, on Tuesday, September 27, 2016. Bidders submitting a bid by facsimile **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit a bid by facsimile should, as a courtesy, submit an email message to john.martin@hilltopsecurities.com by 11:00 A.M., Central time, on Monday, September 26, 2016 indicating their intent to submit a bid by facsimile.

Neither the City nor Hilltop Securities is responsible for any failure of the Financial Advisor's or the bidder's fax machine. Bids received by facsimile after the bid deadline will not be accepted. Bidders who fax bids do so at their own risk. All such bids are binding on the bidder.

PLACE AND TIME OF BID OPENING: The bids for the Certificates will be opened and reviewed at the office of the City's Financial Advisor at 11:00 A.M. on Tuesday, September 27, 2016 and the winning bidder (the "Purchaser or "Initial Purchaser") will be identified and asked to fax or email a signed bid form prior to the award.

AWARD OF THE CERTIFICATES: The City Council will take action to award the Certificates (or reject all bids) at a regular meeting to commence at 6:00 p.m., Central time, on Tuesday, September 27, 2016.

THE CERTIFICATES

DESCRIPTION: The Certificates will be dated October 15, 2016 (the "Dated Date") with interest payable semiannually on February 15 and August 15 of each year, commencing February 15, 2017, until their stated maturity or prior redemption. The Certificates will be issued as fully registered obligations in book-entry form only, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by U.S. Bank National Association, Dallas, Texas (the "Paying Agent/Registrar") as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.) The Certificates will be stated to mature on August 15 in each of the following years in the following amounts:

*Preliminary; subject to change.

MATURITY SCHEDULE*

Maturity 8/15	Principal Amount*
2017	\$ 90,000
2018	80,000
2019	85,000
2020	85,000
2021	85,000
2022	90,000
2023	90,000
2024	90,000
2025	95,000
2026	95,000
2027	100,000
2028	100,000
2029	105,000
2030	105,000
2031	110,000
2032	115,000
2033	115,000
2034	120,000
2035	120,000
2036	125,000

ADJUSTMENT OF MATURITY SCHEDULE FOR THE CERTIFICATES: After selecting the winning bid, the aggregate principal amount of the Certificates and principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in \$5,000 increments to reflect the actual interest rates and to create the desired debt service schedule for the City. Such adjustments will not change the aggregate principal amount of the Certificates by more than 10% from the amount set forth herein or change the principal amount due on the Certificates in any year by more than 15%. The dollar amount bid for the Certificates by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Certificates finally determined to be issued. The City will use its best efforts to communicate to the winning bidder any such adjustment within four (4) hours after the opening of the bids.

In the event of any adjustment of the maturity schedule for the Certificates as described herein, no rebidding or recalculation of the proposals submitted will be required or permitted. Any such adjustment of the maturity schedule for the Certificates made by the City or its Financial Advisor shall be subsequent to the award of the Certificates to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – BASIS OF AWARD" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES: Bidders may provide that all of the Certificates be issued as serial maturities or may provide that any two or more consecutive annual principal amounts be combined into one or more term certificates (the "Term Certificates").

MANDATORY SINKING FUND REDEMPTION: If the successful bidder designates principal amounts to be combined into one or more Term Certificates, each such Term Certificate will be subject to mandatory sinking fund redemption commencing on August 15 of the first year which has been combined to form such Term Certificate and continuing on August 15 in each year thereafter until the stated maturity date of that Term Certificate. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption "MATURITY SCHEDULE." Certificates to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

OPTIONAL REDEMPTION: The City reserves the right to redeem the Certificates maturing on August 15, 2026 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on August 15, 2025 or any date thereafter, at the redemption price of par, plus accrued interest to the date fixed for redemption.

AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT: The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 271, Texas Local Government Code, as amended, the City's home rule Charter and the ordinance adopted by the City Council (the "Ordinance"). (See "THE CERTIFICATES – Security

**Preliminary, subject to change. See "THE CERTIFICATES – ADJUSTMENT OF MATURITY SCHEDULE FOR THE CERTIFICATES" in the Official Notice of Sale and Bidding Instructions.*

for Payment” in the Preliminary Official Statement.) The Certificates constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law, and are further secured by and payable from a limited pledge (not to exceed \$1,000) of the surplus net revenues derived from the operation of the City’s combined water and wastewater system (the “System”).

PAYING AGENT/REGISTRAR: The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. In the Ordinance, the City covenants to provide a Paying Agent/Registrar at all times while the Certificates are outstanding, and any Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Certificates. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Certificates.

In the Ordinance the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, such Paying Agent/Registrar, promptly upon the appointment of a successor, is required to deliver the Security Register to the successor Paying Agent/Registrar.

In the event there is a change in the Paying Agent/Registrar, the City has agreed to notify each registered owner of the Certificates by United States mail, first-class postage prepaid, at the address in the Security Register, stating the effective date of the change and the mailing address of the successor Paying Agent/Registrar.

BOOK-ENTRY-ONLY SYSTEM: The City intends to utilize the Book-Entry-Only System of DTC with respect to the issuance of the Certificates. See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.

OFFICIAL STATEMENT AND OTHER TERMS AND COVENANTS IN THE ORDINANCE: Further details regarding the Certificates and certain covenants of the City contained in the Ordinance are set forth in the Preliminary Official Statement, to which reference is made for all purposes.

CONDITIONS OF THE SALE

TYPES OF BIDS AND INTEREST RATES: The Certificates will be sold in one block, on an “All or None” basis, and at a price of not less than their par value, plus accrued interest from the Dated Date of the Certificates to the date of Initial Delivery (defined herein) of the Certificates. **No bid producing a cash premium of less than \$55,000 or greater than \$100,000 will be considered; provided, however, that any bid is subject to adjustment as described under the caption “THE CERTIFICATES – ADJUSTMENT OF MATURITY SCHEDULE FOR THE CERTIFICATES.”** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest rate for the Certificates (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3.00% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Certificates of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Certificates will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the **lowest True Interest Cost (defined herein) rate to the City.** The “True Interest Cost” rate is that rate which, when used to compute the total present value as of the **Dated Date** of all debt service payments on the Certificates on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Certificates plus the premium bid (but not interest accrued from the Dated Date to the date of their Initial Delivery). In the event of a bidder’s error in interest cost rate calculations, the interest rates, and premium set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the “Code”) relating to the exclusion of interest on the Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (at least (6) business days before the date of initial delivery of the Certificates) a certification as to their “issue price” (the “Issue Price Certificate”) in the form and to the effect attached hereto or accompanying this Official Notice of Sale. In the event the successful bidder is unable to sell a substantial amount of the Certificates of any maturity to the public, the Issue Price Certificate may be modified in a manner approved by the City. Each bidder, by submitting its bid, agrees to complete, execute, and deliver the Issue Price Certificate at least six (6) business days before the date of Initial Delivery of the Certificates, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

GOOD FAITH DEPOSIT: A bank cashier's check, payable to the order of “City of Lacy Lakeview,” in the amount of \$40,000, which is 2% of the par value of the Certificates, (the “Good Faith Deposit”) is required to accompany any bid. The Good Faith Deposit of the Purchaser will be retained uncashed by the City pending the Purchaser's compliance with the terms of its bid and this Official Notice of Sale. In the event the Purchaser should fail or refuse to take up and pay for the Certificates in

accordance with its bid, then said check shall be cashed and accepted by the City as full and complete liquidated damages. The Good Faith Deposit must be submitted so as to be available to the City prior to the opening of the bids, and shall be accompanied by instructions from the bank on which it is drawn which authorizes its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery.** No interest will be allowed on the Good Faith Deposit. Checks accompanying bids other than the winning bid will be returned promptly after the bids are opened, and an award of the Certificates has been made by the City.

The Good Faith Deposit should be mailed or delivered to John L. Martin, Jr., Hilltop Securities, 1201 Elm Street, Suite 3500, Dallas, Texas 75270, Ph. 214-859-9447, by such means as to be received by Mr. Martin prior to the time set for bidding on the Certificates.

OFFICIAL STATEMENT

To assist the Initial Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC"), the Issuer and the Initial Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

COMPLIANCE WITH RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION: In the Ordinance, the Issuer approves and authorizes distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Certificates, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, in the Ordinance, the Issuer deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Initial Purchaser shall be responsible for promptly informing the Issuer of the initial offering yields of the Certificates.

Thereafter, the Issuer will complete and authorize distribution of the final Official Statement, being a modification of the Preliminary Official Statement, identifying the Initial Purchaser and containing such information omitted in the Preliminary Official Statement as permitted by the Rule. The Issuer does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the Issuer intends the same to be final as of such date, within the meaning of the Rule. Notwithstanding the foregoing, the Issuer makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below.

FINAL OFFICIAL STATEMENT: The Issuer will furnish to the Purchaser, within seven (7) business days after the sale date, an aggregate maximum of fifty (50) printed copies of the Official Statement (and 50 copies of any addenda, supplement or amendment thereto), together with information regarding interest rates, and other terms relating to the reoffering of the Certificates. In addition, the City agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The City consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules. The Purchaser may arrange at its own expense to have the Official Statement reproduced and printed if it requires more copies and may also arrange, at its own expense and responsibility, for completion and perfection of the inside cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Certificates. The Purchaser will be responsible for providing information concerning the Issuer and the Certificates to subsequent purchasers of the Certificates, and the Issuer will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The Issuer's obligation to supplement the Official Statement to correct key representations determined to be omitted or materially misleading after the date of the Official Statement shall terminate 25 days after the delivery date.

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Official Statement, the Issuer learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Certificates, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - Conditions to Delivery," the Issuer will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT: At the time of payment for and delivery of the hereinafter defined Initial Certificates ("Initial Delivery"), the Initial Purchaser will be furnished a certificate, executed by an authorized representative of the City, acting in such person's representative capacity, to the effect that to the best of such person's knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of the Official Statement, on the date of sale of the Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, the Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of

the circumstances under which they were made, not misleading in any material respect; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in the Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL CERTIFICATE: Initial Delivery will be accomplished by the issuance of one or more fully registered Certificates in the aggregate principal amount of the Certificates payable to the Purchaser (the "Initial Certificates"), signed by the Mayor and City Secretary, by their manual or facsimile signatures, approved by the Texas Attorney General, and registered and manually signed by the Texas Comptroller of Public Accounts. Initial Delivery will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Certificates, they shall be immediately canceled and one definitive Certificate for each maturity in the aggregate principal amount of the Certificates payable to Cede & Co. will be delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Certificates. It is anticipated that the delivery of the Initial Certificates can be made on or about October 19, 2016, but if for any reason the City is unable to make delivery by November 19, 2016, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its obligation to take up and pay for the Certificates an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided that such failure is due to circumstances beyond the City's reasonable control.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Certificates, but neither the failure to print such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Certificates shall be paid by the Issuer; however, **the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Initial Purchaser.**

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Certificates is subject to the following conditions: the issuance of an approving opinion of the Attorney General of the State of Texas, the Initial Purchaser's receipt of the legal opinion of Bond Counsel and the City's certification as to Official Statement, and the non-occurrence of the events described below under the caption "DELIVERY AND ACCOMPANYING DOCUMENTS" "NO MATERIAL ADVERSE CHANGE". In addition, if the Issuer fails to comply with its obligations described under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Certificates by delivering written notice to the Issuer within five (5) days thereafter.

CONFLICT DISCLOSURE FORM: Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Certificates to a bidder unless the winning bidder submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC"). In the event that the bidder's bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the City's conditional verbal acceptance of the bid, and will obligate the winning bidder to establish (unless the winning bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the City to complete the award.

The notarized Disclosure Form must be sent by email, to the City's Bond Counsel, jgulbas@Mphlegal.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form is received. The City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the City that its bid is the conditional winning bid.

For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

NO MATERIAL ADVERSE CHANGE: The obligations of the Initial Purchaser to take up and pay for the Certificates, and of the Issuer to deliver the Initial Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Certificates, there shall have been no material adverse change in the financial affairs of the Issuer subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

LEGAL OPINIONS: The City will furnish the Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas as

to the Certificates, to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, regarding the legality and validity of the Certificates issued in compliance with the provisions of the Ordinance. (See "LITIGATION" and "LEGAL MATTERS" in the Official Statement and "Appendix C – Form of Legal Opinion of Bond Counsel" attached to the Official Statement.)

CHANGE IN TAX-EXEMPT STATUS: At any time before the Certificates are tendered for initial delivery to the Initial Purchaser, the Initial Purchaser may withdraw its bid if the interest on obligations such as the Certificates shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

GENERAL CONSIDERATIONS

RATING: A municipal bond rating application has been made to S&P Global Ratings ("S&P"). An explanation of the significance of such a rating may be obtained from such S&P. A rating by a rating agency reflects only the view of such company at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that such a rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

MUNICIPAL BOND INSURANCE: In the event the Certificates are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the cost therefor will be paid by the Purchaser. The City shall be responsible for paying any fee of S&P. It will be the duty of the Purchaser to disclose the existence of insurance, its terms and effect thereof with respect to the reoffering of the Certificates.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE: No registration statement relating to the Certificates has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act. The Certificates have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Certificates been registered or qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for registration or 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 registration or qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify sale of the Certificates under the securities laws of any jurisdiction which so requires. The Issuer agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Certificates, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but the City will in no instance qualify as a foreign corporation or execute a general consent to service of process in any state in which the Certificates are offered for sale.

ADDITIONAL COPIES: Subject to the limitations described herein, additional copies of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from Hilltop Securities, 1201 Elm Street, Suite 3500, Dallas, Texas 75270, Attention: Abby Rodriguez (phone: 214-859-9426 or email: abby.rodriguez@hilltopsecurities.com).

The City Council will, in the Ordinance authorizing the issuance of the Certificates, approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

CITY OF LACY LAKEVIEW

Mayor

City Secretary

OFFICIAL BID FORM

September 27, 2016

Honorable Mayor and City Council
 City of Lacy Lakeview, Texas
 501 E. Craven Ave.
 Lacy Lakeview, Texas 76705

Ladies and Gentlemen:

Reference is made to your Official Notice of Sale and Preliminary Official Statement dated September __, 2016 of \$2,000,000* City of Lacy Lakeview, Texas Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Certificates"), both of which constitute a part hereof.

For your legally issued Certificates, as described in said Official Notice of Sale and Preliminary Official Statement, we will pay you a price of par value thereof plus accrued interest from the Dated Date to the date of delivery to us, plus a cash premium of \$ _____ (minimum of \$55,000 and maximum of \$100,000) for Certificates maturing and bearing interest as follows:

Maturity (8/15)	Principal Amount*	Interest Rate	Maturity (8/15)	Principal Amount*	Interest Rate
2017	\$90,000	_____	2027	\$100,000	_____
2018	80,000	_____	2028	100,000	_____
2019	85,000	_____	2029	105,000	_____
2020	85,000	_____	2030	105,000	_____
2021	85,000	_____	2031	110,000	_____
2022	90,000	_____	2032	115,000	_____
2023	90,000	_____	2033	115,000	_____
2024	90,000	_____	2034	120,000	_____
2025	95,000	_____	2035	120,000	_____
2026	95,000	_____	2036	125,000	_____

Of the principal maturities set forth in the table above, we have created term Certificates (the "Term Certificates") as indicated in the following table (which may include multiple Term Certificates, one Term Certificate or no Term Certificate if none is indicated). For those years which have been combined into a Term Certificate, the principal amount shown in the table above will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Certificate maturity date will mature in such year. The Term Certificates created are as follows:

Term Certificate Maturity Date August 15*	Year of First Mandatory Redemption	Principal Amount of Term Certificate*	Interest Rate
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Our calculation (which is not a part of this bid) of the interest cost in accordance with the above bid is:

TRUE INTEREST COST _____%

By accepting this bid, we understand the City will provide the copies of the Official Statement and of any amendments or supplements thereto in accordance with the Official Notice of Sale.

The Initial Certificate(s) shall be registered in the name of _____ (syndicate manager). We will advise DTC of registration instructions at least five business days prior to the date set for Initial Delivery. It is the obligation of the Purchaser of the Certificates to complete the DTC Eligibility Questionnaire.

The bid of the undersigned is submitted on the basis of the following maturities _____ being insured by _____ at a premium of \$ _____ to be paid by the Purchaser. (See "MUNICIPAL BOND INSURANCE," page vi of the Official Notice of Sale.)

Cashier's Check of the _____ (bank), _____ (location), in the amount of \$50,000.00 which represents our Good Faith Deposit is attached hereto or has been made available to you prior to the sale date. The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery upon completion of the closing.

*Preliminary, subject to change. See "THE CERTIFICATES – ADJUSTMENT OF MATURITY SCHEDULE FOR THE CERTIFICATES" in the Official Notice of Sale and Bidding Instructions.

We agree to accept delivery of the Initial Certificate(s) through DTC and make payment for the Initial Certificate(s) in immediately available funds at U.S. Bank National Association, Dallas, Texas, no later than 10:00 A.M., Central time, on October 19, 2016 or thereafter on the date the Initial Certificate(s) are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The undersigned agrees to complete, execute and deliver to the City at least six (6) business days prior to the date of delivery of the Certificates, a certificate relating to the "issue price" of the Certificates in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the City.

Respectfully submitted,

(Purchaser)

(Signature - Title)

(Telephone)

ACCEPTANCE CLAUSE

THE FOREGOING BID IS IN ALL THINGS HEREBY ACCEPTED this 27th day of September, 2016, by the City Council of the City of Lacy Lakeview.

Mayor
City of Lacy Lakeview, Texas

City Secretary
City of Lacy Lakeview, Texas

ISSUE PRICE CERTIFICATE

The undersigned hereby certifies as follows with respect to the bid and purchase of the City of Lacy Lakeview Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Certificates"):

1. The undersigned is the duly authorized representative of the purchaser (the "Purchaser") of the Certificates from the City of Lacy Lakeview (the "Issuer").
2. All of the Certificates have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the Certificates was offered to the public at a price which, on the date of such offering, was reasonably expected by the Purchaser to be equal to the fair market value of such maturity. For purposes of this certificate, the term "initial offering price" means the initial offering price of the Certificates to the public in a bona fide initial offering of the Certificates. The initial offering price includes any premium or discount, but excludes accrued interest on any dealer concession. The initial offering prices shown below are stated as yields.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Certificates was sold to the public is set forth below.

<u>Maturity</u> <u>Date</u>	<u>Par</u> <u>Amount</u>	<u>Yield</u>	<u>Price</u>
--------------------------------	-----------------------------	--------------	--------------

5. In the case of the Retained Maturities, the Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

<u>Maturity</u> <u>Date</u>	<u>Par</u> <u>Amount</u>	<u>Yield</u>	<u>Price</u>
--------------------------------	-----------------------------	--------------	--------------

We understand that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate prepared by the Issuer in connection with the issuance of the Certificates and by McCall, Parkhurst & Horton LLP (i) in connection with rendering its opinion to the Issuer that interest on the Certificates is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

6. The undersigned and/or one or more other members of the underwriting syndicate, as the case may be, (have)(have not) purchased bond insurance for the Certificates. The bond insurance, if any, has been purchased from _____ (the "Insurer") for a premium cost of \$_____ (net of any nonguarantee cost, e.g., rating agency fees). The amount of such cost is set forth in the Insurer's commitment and is separately stated from all other fees or charges payable to the Insurer. The premium does not exceed a reasonable charge for the transfer of credit risk taking into account payments charged by guarantors in comparable transactions (including transactions in which a guarantor has no involvement other than as a guarantor). The present value of the debt service savings expected to be realized as a result of such insurance, discounted at a rate equal to the yield on the Certificates which results after recovery of the insurance premium, exceeds the present value of the bond insurance premium.

EXECUTED and DELIVERED this _____, 2016.

[Name of Purchaser]

By: _____

Name: _____

Title: _____

PRELIMINARY OFFICIAL STATEMENT

Dated: September __, 2016

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

THE CITY WILL DESIGNATE THE CERTIFICATES AS "QUALIFIED TAX-EXEMPT OBLIGATIONS".

\$2,000,000*

CITY OF LACY LAKEVIEW, TEXAS

(A municipal corporation of the State of Texas located in McLennan County, Texas)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2016

Dated Date: October 15, 2016

Due: August 15, as shown on page ii

The City of Lacy Lakeview, Texas (the "City" or "Issuer") \$2,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Certificates") are being issued pursuant to the Constitution and laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, and an ordinance (the "Ordinance") adopted by the City Council. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law, and are further secured by and payable from a limited pledge (not to exceed \$1,000) of the net revenues, derived from the operation of the City's combined water, and wastewater system (the "System"). (See "THE CERTIFICATES - Security for Payment" herein.)

Interest on the Certificates will accrue from the dated date as shown above and will be payable on February 15 and August 15 of each year, commencing February 15, 2017, until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully-registered certificates in book-entry form only and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a maturity. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by U.S. Bank National Association, Dallas, Texas, as Paying Agent/Registrar, to DTC, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

The City has made application to municipal bond insurers with respect to the Certificates. In the event the Certificates are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the final Official Statement shall disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Certificates. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)

Proceeds from the sale of the Certificates will be used for paying all or a portion of the City's contractual obligations for (i) acquiring and constructing improvements to the City's water distribution system including a ground storage tank pump station and booster, and the acquisition of interests in land necessary for such projects and, (ii) for paying fees for legal, fiscal, engineering, architectural and other professional services in connection with these projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

The Certificates maturing on August 15, 2026, are subject to redemption prior to their stated maturity at the option of the City on August 15, 2025, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest, as further described herein. (See "THE CERTIFICATES - Redemption Provisions" herein.)

MATURITY SCHEDULE

(See Inside Cover Page)

The Certificates are offered for delivery when, as and if received by the initial purchasers (the "Purchasers"), subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton LLP, Dallas, Texas, Bond Counsel. The Certificates are expected to be available for delivery through DTC on or about October 19, 2016.

BIDS DUE SEPTEMBER 27, 2016 AT 11:00 A.M. CENTRAL TIME

_____ *Preliminary; subject to change.

CITY OF LACY LAKEVIEW
Combination Tax and Revenue Certificates of Obligation
Series 2016

MATURITY SCHEDULE*
(Due August 15)
Base CUSIP Number: 505690 ⁽¹⁾

<u>Stated Maturity ⁽²⁾</u>	<u>Principal Amount*</u>	<u>Rate (%)</u>	<u>Yield %</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2017	\$90,000			
2018	80,000			
2019	85,000			
2020	85,000			
2021	85,000			
2022	90,000			
2023	90,000			
2024	90,000			
2025	95,000			
2026	95,000			
2027	100,000			
2028	100,000			
2029	105,000			
2030	105,000			
2031	110,000			
2032	115,000			
2033	115,000			
2034	120,000			
2035	120,000			
2036	125,000			

(Interest to accrue from the Dated Date)

⁽¹⁾ CUSIP numbers have been assigned to this issue and are included solely for the convenience of the purchasers of the Certificates. "CUSIP" is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in anyway as a substitute for the CUSIP Services. Neither the City or the Financial Advisor is 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 August 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

*Preliminary; subject to change.

**CITY OF LACY LAKEVIEW, TEXAS
501 E. Craven Ave.
Lacy Lakeview, Texas 76705
(254) 799-2458**

ELECTED OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Occupation</u>
Calvin Hodde	Mayor	2017	Construction Supervisor
Denise Cogliati	Mayor Pro-Tem	2018	Self Employed
Barbara Seitz	Member	2017	Financial Advisor
Amy Hall	Member	2018	Histologist
Patrick Bell	Member	2018	Estimator
Steven Moore	Member	2017	Retired
Bruce Bundrant	Member	2017	Retired

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Length of Service In current position</u>	<u>Total Years of Service</u>
Keith Bond	City Manager	6 years	36 years
Betty Jennings	Finance Director	6 years	14 years

CONSULTANTS AND ADVISORS

Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Certified Public Accountants	Coker, Wommack & Company Waco, Texas
Financial Advisor	Hilltop Securities, Inc. Dallas, Texas

For Additional Information Please Contact:

Betty Jennings
Finance Director
City of Lacy Lakeview
501 E Craven Ave.
Lacy Lakeview, Texas 76705
(254) 799-2458
betty.jennings@lacylakeview.org

Mr. John L. Martin, Jr.
Managing Director
Hilltop Securities
1201 Elm Street, Suite 3500
Dallas, Texas 75270
(214) 859-9447
john.martin@hilltopsecurities.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes a Preliminary Official Statement of the City with respect to the Certificates that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by the Rule.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The City	The City of Lacy Lakeview, Texas (the "City" or "Issuer"), is a home rule municipality located in McLennan County and is a municipal corporation governed by a mayor and a six-member council. The Mayor and six council members are elected by place number and at-large for two-year staggered terms. (See "Appendix B - General Information Regarding City of Lacy Lakeview and McLennan County" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code as amended the City's home rule charter, and an ordinance (the "Ordinance") adopted by the City Council. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas.
Security	The Certificates constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law, and are further secured by and payable from a limited pledge (not to exceed \$1,000) of the net revenues derived from the operation of the City's combined water and sewer system (the "System"). (See "THE CERTIFICATES - Security for Payment" herein.)
Redemption Provisions	The Certificates maturing on August 15, 2026, are subject to redemption prior to their stated maturity at the option of the City on August 15, 2025, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof within a maturity, at the redemption price of par plus accrued interest. (See "THE CERTIFICATES – Redemption Provisions" herein.)
Use of Proceeds	Proceeds from the sale of the Certificates will be used for paying all or a portion of the City's contractual obligations for (i) acquiring and constructing improvements to the City's water distribution system including a ground storage tank pump station and booster, and the acquisition of interests in land necessary for such projects and, (ii) for paying fees for legal, fiscal, engineering, architectural and other professional services in connection with these projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York described herein. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Such Book-Entry-Only System may affect the method and timing of payments on the Certificates and the manner the Certificates may be transferred. (See "Book-Entry-Only System" herein.)
Rating	S&P Global Ratings ("S&P") has assigned their credit ratings of "___", to the Certificates without regard to any credit enhancement. An explanation of the significance of any rating may be obtained from S&P. (See "RATING" herein.)
Tax Exemption	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law subject to the matters described under "Tax Matters" herein including the alternative minimum tax on corporations.
Payment Record	The City has not defaulted in payment of its tax supported debt.
Issuance of Additional Debt	The City does not anticipate the issuance of additional general obligation debt in the next twelve months.
Delivery	When issued, anticipated on or about October 19, 2016.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas.

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Lacy Lakeview, Texas (the "City" or "Issuer") of its \$2,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Certificates") identified on the cover page hereof.

The City is a political subdivision of the State of Texas (the "State") and operates under its home rule charter and the statutes and the Constitution of the State. The Certificates are being issued pursuant to the Constitution and general laws of the State, and an ordinance authorizing their issuance adopted by the City Council authorizing the issuance of the Certificates. (See "THE CERTIFICATES- Authority for Issuance" herein.)

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the City and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained from the City or the Financial Advisor.

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

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Certificates will be applied as follows:

Sources of Funds

Certificate Proceeds:	\$
Net Premium:	
Accrued Interest:	
Total Sources of Funds	<u><u>\$</u></u>

Uses of Funds

Deposit to Project Fund:	\$
Deposit to Debt Service Fund:	
Costs of Issuance:	
Bond Insurance Premium	
Underwriter's Discount:	
Total Uses of Funds	<u><u>\$</u></u>

THE CERTIFICATES

General

The Certificates will be dated September 15, 2016 the ("Dated Date"). The Certificates are stated to mature on August 15 in the years and in the principal amounts set forth on the inside cover page hereof. The Certificates shall bear interest from their Dated Date on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Certificates will be payable on February 15 and August 15 of each year commencing February 15, 2017 until maturity or prior redemption. Principal is payable at the designated offices of the Paying Agent/Registrar, initially U.S. Bank National Association, Dallas, Texas. Interest on the Certificates is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar to the registered owner at the address as it appears on the Paying Agent/Registrar's books on the Record Date (as defined herein) or by such other method acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner.

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Ordinance adopted by the City Council.

Security for Payment

The Certificates constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law and are further secured by and payable from a limited pledge (not to exceed \$1,000) of the net revenues, derived from the operation of the City's combined water and sewer system (the "System"). 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 adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all tax-supported debt service, as calculated at the time of issuance.

(See "AD VALOREM TAX PROCEDURES – Tax Rate Limitations" herein).

Redemption Provisions

Optional Redemption: The Certificates maturing on August 15, 2026 are subject to redemption prior to their stated maturity at the option of the City on August 15, 2025, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

Notice of Redemption: At least 30 days prior to the date fixed for any such redemption, the Issuer shall cause a written notice of such redemption to be deposited in the United States mail, first class postage prepaid, addressed to each registered owner of a Certificate to be redeemed at the address shown on the registration books of the Paying Agent/Registrar on the business day of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAIL TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof, which are to be so redeemed. If such notice of redemption is given and if due provisions for such payment is made, all as provided above, the Certificates or portions thereof shall be deemed to be redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar from the funds provided for such payment.

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

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

Limitation on Transfer or Exchange of Certificates

The Paying Agent/Registrar is not required to transfer or exchange any Certificate during the period commencing with the close of business on any Record Date immediately preceding a principal or interest payment date for such Certificates and ending with the opening of business on the next following such principal or interest payment date; or with respect to any Certificate or portion called for redemption prior to maturity, within 45 days prior to its redemption date.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for paying all or a portion of the City's contractual obligations for (i) acquiring and constructing improvements to the City's water distribution system including a ground storage tank pump station and booster, and the acquisition of interests in land necessary for such projects and, (ii) for paying fees for legal, fiscal, engineering, architectural and other professional services in connection with these projects.

Payment Record

The City has never defaulted in its bonded indebtedness.

Legality

The Certificates are offered when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to legality by McCall, Parkhurst & Horton LLP, Dallas, Texas. The legal opinion of Bond Counsel will accompany the global certificates to be deposited with DTC or will be printed on the respective Certificates should the Book-Entry-Only System be discontinued. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Defeasance

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities (defined herein), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to refund, retire or otherwise discharge obligations such as the Certificates and which currently consists of the following: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, 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 are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption, at an earlier date, those Certificates which have been defeased to their maturity date, if the City: (i) in the proceeding 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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Amendments to the Ordinance

The City reserves the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as will not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

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

Default and Remedies

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due or the City defaults in the observance or performance of any of the covenants,

conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Certificates, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for failure to pay the principal or breach of the covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. 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 holders of the Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, must be a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

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

Record Date

The record date ("Record Date") for determining the person to whom interest is payable, on any interest payment date, means the last business day of the month next preceding such interest payment date.

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

owner of the Certificates 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.

Future Registration

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

Replacement Certificates

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

BOND INSURANCE

The Issuer has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Certificates insured by a municipal bond insurance policy. If a municipal bond insurance policy is purchased, it will be at the sole discretion of the Initial Purchaser in connection with the submission of its bid for purchase of the Certificates and the premium for such policy will be paid by the Initial Purchaser. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to any such municipal bond insurance policy.

BOND INSURANCE RISK FACTORS

General

If a commitment from a bond insurance company (the "Insurer") to provide a municipal bond insurance policy relating to the Certificates (the "Policy") is obtained, the following risk factors generally apply.

In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the Certificates owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES - Defaults and Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the holders of the Certificates.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City. In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the long-term ratings on the Certificates will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Certificates, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Certificates. See the disclosure described in "OTHER PERTINENT INFORMATION - Ratings" herein. The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer the remedies available may be limited by applicable bankruptcy law. Neither the City nor the Financial Advisor has made independent investigation into the claims-paying ability of any Insurer and no assurance or representation regarding the financial strength or projected financial strength of any Insurer is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's Investor Services, Inc., S&P Global ratings and Fitch Ratings (the "Rating Agencies") have, over the last several years, downgraded and/or placed on negative watch the claims-paying and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, events over the last several years in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims paying ability of any such bond insurer, particularly over the life of the Certificates.

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 DTC 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 Issuer and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Issuer 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.

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

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's 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).

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

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

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, Certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City nor the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the 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 Direct or Indirect 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 Ordinance will be given only to DTC.

INVESTMENT POLICIES

The City is required by state law to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA (defined below). All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, (6) yield and (7) legality.

The City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers

must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value, and the fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest City funds without express written authority from the City Council.

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

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

Investment Authority and Investment Practices

Available City funds are invested as authorized by State law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act, (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits; or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270

days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and, (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

Current Investments

On July 31, 2016, the City had investments totaling \$1,484,418.25 (unaudited) held in investment pools.

RETIREMENT PLAN AND OTHER POST RETIREMENT BENEFITS

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2014	Plan Year 2015
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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

At the December 31, 2014, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>49</u>
	<u>92</u>

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.94% and 13.70% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$261,153, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale 88 to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	Long-Term Expected Real Rate of <u>Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
Total	<u>100.0%</u>	

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the Total Pension Liability.

Changes in the Net Pension Liability for the plan year ending December 31, 2014 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Pension (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2013	\$5,821,988	\$4,554,267	\$1,267,721
Changes for the year:			
Service cost	256,056		256,056
Interest	409,373		409,373
Change of benefit terms			
Difference between expected and actual experience	161,622		161,622
Changes of assumptions			
Contributions - employer		240,146	(240,146)
Contributions - employee		131,638	(131,638)
Net investment income		260,564	(260,564)
Benefit payments, including refunds of employee contributions	(203,653)	(203,653)	
Amortization of prior year assets		(2,720)	2,720
Administrative expense		(224)	224
Other changes			
Net changes	<u>623,398</u>	<u>425,751</u>	<u>197,647</u>
Balance at 12/31/2014	<u>\$6,445,386</u>	<u>\$4,980,018</u>	<u>\$1,465,368</u>

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1 percentage-point higher (8.0%) than the current rate:

City's net pension liability	1% Decrease in <u>Discount Rate (6.0%)</u>	Discount <u>Rate (7.0%)</u>	1% Increase <u>in Discount Rate (8.0%)</u>
	\$ 2,593,523	\$1,465,368	\$571,820

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

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

For the year ended September 30, 2015, the city recognized pension expense of \$ 261,153.

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

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$46,588	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	124,460	-
Contributions subsequent to the measurement Date	<u>200,454</u>	<u>-</u>
 Total	 <u>\$371,502</u>	 <u>\$ -</u>

\$ 200,454 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	
2015	\$48,809
2016	48,809
2017	48,809
2018	24,621
2019	-
Thereafter	-
	<u>\$171,048</u>

AD VALOREM TAX PROCEDURES

The Certificates are payable from an ad valorem tax levied, within the limitations prescribed by law, on all taxable property within the City. Reference is hereby made to Title 1 of the Texas Tax Code (the "Property Tax Code") for identification of property subject to taxation, property exempt or which may be exempted from taxation, the appraisal of property for taxation purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes. Among other provisions, the Property Tax Code contains the following provisions with respect to the assessment of property and the levy and collection of ad valorem taxes:

1. a single appraisal district in each county to appraise property for taxation purposes for all taxing units located wholly or partly within the county;
2. all property to be assessed at 100% of its market value and the assessment of property on the basis of a percentage of its appraised value is prohibited;
3. requires an "effective tax rate" and "rollback tax rate" to be annually calculated and publicized and necessitates the holding of two public hearings if the tax rate to be adopted, when applied to the total taxable values, would impose an amount of taxes exceeding the prior year's levy; if the adopted tax rate exceeds the rollback tax rate, a referendum election may be required to be held on limiting the tax rate the City may adopt for the following year to the rollback tax rate; and
4. the value of property is generally assessed for purposes of taxation on January 1 or each year and taxes levied each year generally become due and payable on October 1 and become delinquent on February 1 of the following year in which the taxes are imposed.

Property Tax Code and Countywide Appraisal District

Pursuant to the Property Tax Code, there has been established for each county in the State a single appraisal district with responsibility for recording and appraising property for all taxing units within the county and a single appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The McLennan County Appraisal District (the "Appraisal District") is responsible for appraising property within the City. The Appraisal District is governed by a board of directors appointed by the governing bodies of the various governmental units within McLennan County, with votes weighted by relative tax levy. Generally, property in the City must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the City in

establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

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

Appraisals are subject to review by the appraisal review board. Under certain circumstances taxpayers and taxing units (such as the City) may appeal an order of the appraisal review board by filing a petition for review in state district court. In such event, the value of the property in question will be determined by the court, or by a jury if requested by any party. Absent any such appeal, the appraisal roll as prepared by the appraisal district and approved by the appraisal review board must be used by each taxing jurisdiction in establishing its tax rolls and tax rate.

Although the City has the authority to establish tax rates and to levy and collect its taxes each year, the City cannot establish standards for appraisal or determine the frequency of revaluation or reappraisal. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for reappraisal of all real property in the appraisal district at least every three years.

Property Subject to Taxation by the City and Exemptions

Except for certain exemptions provided by State law, all real and tangible personal property in the City is subject to taxation by the City. However, the City does not levy taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain households goods, family supplies and personal effects; farm products and implements owned by the producer; certain property owned by charitable organizations, youth development associations, religious organizations and qualified schools; designated historic sites; solar and wind powered energy devices; and most individually-owned automobiles. The Property Tax Code also exempts all tangible personal property not producing income, other than manufactured homes, from ad valorem taxes; however, the taxing unit may choose to override this exemption.

Homestead Exemptions: Under Section 1-b, Article VIII, of the Texas Constitution ("Article VIII") and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of 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.

Homestead Tax Limitation: Under Article VIII of the Texas Constitution and State law, the governing body of a county, municipality or junior college district may provide for a freeze on the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such tax limitation, the total amount of taxes imposed on such homestead cannot be increased except for improvements (other than repairs or improvements required to comply with governmental requirements), and such freeze is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of

the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Once established such freeze cannot be repealed or rescinded.

Disabled/Deceased Veterans Exemption: Section 2, Article VIII, permits and State Law mandates an additional property tax exemption for disabled veterans or the surviving spouse (so long as the spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, effective January 1, 2012, surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

Freeport Exemption: 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.

Goods in Transit: The Property Tax Code also provides for an exemption from taxation for "Goods in Transit", which are certain goods, principally inventory, that are stored, for the purposes of assembling, storing, manufacturing, processing, or fabricating the goods, in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days; a taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

Tax Increment Financing Zones and Tax Abatements: A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the TIF may be used to pay costs of infrastructure or other public improvements in the TIF and to supplement or act as a catalyst for private development in the defined area of the TIF. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the TIF as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the TIF. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the TIF, multiplied by the taxing unit's percentage level of participation.

A 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.

Chapter 380 Agreements: The City is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

Tax Rate Limitations

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. 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 adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all tax-supported debt service, as calculated at the time of issuance.

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions and appraisals of property not previously on an appraisal roll. Article VIII, Section 21 of the Texas Constitution provides that, subject to any exception prescribed by general law, the total amount of property taxes imposed by a political subdivision in any year may not exceed the total amount of property taxes imposed in the preceding year unless a notice of intent to consider an increase in taxes is given and a public hearing on the proposed increase is held before the total taxes are increased.

Effective Tax Rate and Rollback Tax Rate

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions and appraisals of property not previously on an appraisal roll. Article VIII, Section 21 of the Texas Constitution provides that, subject to any exception prescribed by general law, the total amount of property taxes imposed by a political subdivision in any year may not exceed the total amount of property taxes imposed in the preceding year unless a notice of intent to consider an increase in taxes is given and a public hearing on the proposed increase is held before the total taxes are increased.

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 tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures for the next year, and (2) a rate to fund debt service in the next year.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The Property Tax Code provides that the City Council shall be prohibited from adopting a tax rate 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 hearings (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.

"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.

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.

Levy and Collection of Taxes

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Property within the City is generally assessed as of January 1 of each year based upon the valuation of property within the City as of the preceding January 1. 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 are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. The Property Tax Code makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and final installment due on August 1.

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

<u>Month</u>	<u>Penalty</u>	<u>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 ^(a)	12	6	18

^(a) After July, penalty remains at 12% and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.

In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Issuer's Rights in the Event of Tax Delinquencies

Taxes levied by the Issuer are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the Issuer, having power to tax the property. The Issuer's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the Issuer is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

CITY APPLICATION OF THE PROPERTY TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$5,000; Disabled Veterans are granted an exemption based upon their percent of disability.

The City has granted an additional exemption of 20% of the market value of residence homesteads.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

The City does not tax non-business personal property.

The City does not permit split payments and discounts are not allowed.

The City does not grant the Article VIII, Section 1-j ("freeport property") exemption.

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

The City has adopted a tax abatement policy and has entered into tax abatement agreements.

The City has not created a Tax Increment Reinvestment Zone.

ADDITIONAL TAX COLLECTIONS

Municipal Sales Tax Collections

The City has adopted the provisions of Chapter 321, Texas Tax Code, which provides for the maximum levy of a 1% sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of indebtedness, including the Certificates. Collections and enforcements are through the offices of the Comptroller of Public Accounts, State of Texas who remits the proceeds of the tax, after deduction of a 2% service fee. Net collections on a calendar year basis are shown in Table 12 of Appendix A.

Optional Sales Tax

Registered voters of the City approved the imposition of a one-half percent (1/2%) additional sales tax for property tax reduction. Levy of the ad valorem tax reduction sales tax began on October 1, 1993. The City collects a total of one and one-half percent (1 ½%) sales tax.

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue

Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

Interest on the Certificates will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Under section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption

from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City will designate the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Certificates would not be "qualified tax-exempt obligations."

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas as to the Certificates to the effect that the Certificates are valid and legally binding certificates of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, with respect to the Certificates issued in compliance with the provisions of the Ordinance. The form of such opinion of Bond Counsel is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Certificates, will also be furnished. In connection with the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Notice of Sale and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is 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 various legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Certificates qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations because the City has not issued more than \$10,000,000 in aggregate amount of outstanding debt and no person is committed by contract or other arrangement with respect to payment of the Certificates. Pursuant to the exemption, the City in the Ordinance 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 and timely notice of specified material events to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to investors by the MSRB through its Electronic Municipal Markets Access ("EMMA") system, free of charge at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data, which is customarily prepared by the City and is publicly available, to the MSRB on an annual basis. Such information is currently provided through the City's audited financial statements. The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12, as amended (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 the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

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 determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

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

Availability of Information

In connection with its continuing disclosure agreement entered into with respect to the Certificates, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings is available, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

The City may amend its continuing disclosure agreements 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Certificates in the primary offering of the Certificates in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Certificates subject to the proposed amendment, as the case may be, consent to such amendment or (b) a person that is

unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Certificates subject to the proposed amendment. The City may also amend or repeal the provisions of its continuing disclosure agreements if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City amends its agreements, it must include with the next financial information and operating data provided in accordance with its agreements described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the past five years, the City has noted the following in making continuing disclosure filings in accordance with past undertakings entered into in accordance with the Rule. The City did not file notice on an underlying rating upgrade by S&P that occurred on December March 7, 2014. The City's audited financial statement for fiscal year ending 2015 was filed after the deadline, as it became available. Additionally, filings containing annual financial information made for fiscal years ending September 30, 2012, 2013 and 2014 omitted budget data. The City filed notice of these events on September 14, 2016. The City has reviewed its continuing disclosure undertaking procedures and engaged its financial advisor to assist the City in monitoring the information and events required to be reported in the EMMA system.

OTHER PERTINENT INFORMATION

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.

Litigation

In the opinion of City officials, the City is not a party to any litigation or other proceeding pending or to their knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the City, would have a material adverse effect on the financial condition or operations of the City.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act, (Chapter 1201, Texas Government Code) provides that obligations such as the Certificates "will constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Business and Commerce Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking fund of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas." Texas law further provides that 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 Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended), the Certificates may have to be assigned a rating as to investment quality of not less the "A," or its equivalent, by a nationally recognized rating agency before such Certificates are eligible investments for sinking funds and other public funds. No review by the Issuer has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

Rating

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

Financial Advisor

Hilltop Securities is employed as a Financial Advisor to the City in connection with the issuance of the Certificates. In this capacity, the Financial Advisor has compiled certain data relating to the Certificates and has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the

Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Certificates.

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the inside cover page of the Official Statement at a price of par plus a cash premium of \$_____. 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. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Certificates, the Initial Purchaser will be furnished a certificate, executed by a proper official of the Issuer, acting in such person's official capacity, to the effect that to the best of his or her knowledge and belief: (a) the descriptions and statements of or pertaining to the Issuer contained in its Final Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Final Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, such Final Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the Issuer, and their activities contained in such Final Official Statement are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and the Issuer has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Issuer, since September 30, 2014, the date of the last audited financial statements of the Issuer, portions of which appear in the Final Official Statement as Appendix D. The Preliminary Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Certificates will be authorized, ratified and approved by the City Council on the date of sale, and the Initial Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the Issuer.

The Ordinance will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto issued on behalf of the Issuer, and authorize its further use in the reoffering of the Certificates by the Purchaser.

Forward-Looking Statements Disclaimer

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials.

Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CONCLUDING STATEMENT

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

Upon adoption of the Ordinance, this Official Statement is considered approved by the City Council of the Issuer for distribution in accordance with the provisions of the Securities and Exchange Commission’s rule codified at 17 C.F.R. Section 240.15c2-12.

CITY OF LACY LAKEVIEW, TEXAS

ATTEST:

City Secretary

Mayor

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APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

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

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION **TABLE 1**

2016 Actual Market Value of Taxable Property		\$ 347,633,673
Less Exemptions:		
Exempt Value	\$ 14,421,840	
Homestead Cap	1,845,023	
Productivity Loss	1,071,820	
Pro-rated Value	8,054	
Abated amount	-	
House Bill 366	5,090	
Over 65	2,065,401	
Disabled Veteran	4,965,677	
Pollution	58,536	
Other		
		24,441,441
2016 Net Taxable Assessed Valuation (100% of Actual) ⁽¹⁾		\$ 323,192,232

⁽¹⁾ See "AD VALOREM TAXATION" in the Official Statement for a description of the Issuer's taxation procedures.
Source: McLennan County Appraisal District

GENERAL OBLIGATION BONDED DEBT **TABLE 2**

General Obligation Debt Outstanding:			
General Obligation Refunding Bonds, Series 2010		\$ 2,055,000	
Combination Tax & Revenue Certificates of Obligation, Series 2013		1,280,000	
Tax Notes, Series 2015		1,725,000	
The Certificates		2,000,000	*
Total Gross General Obligation Debt Outstanding:		\$ 7,060,000	
Self-Supported General Obligation Debt Outstanding:			
Combination Tax & Revenue Certificates of Obligation, Series 2013	100%	\$ 1,280,000	
Tax Notes, Series 2015	100%	1,725,000	
The Certificates, Series 2016	100%	2,000,000	*
Total Self-Supported Debt Outstanding:		\$ 5,005,000	
Total Net General Obligation Debt Principal Outstanding:		\$ 2,055,000	
2016 Net Assessed Valuation ⁽¹⁾		\$ 323,192,232	
Population: 1990 - 3,617; 2000 - 5,764 2016 (Estimate) -		6,633	
Per Capita 2012 Net Assessed Valuation -		\$48,725	
Per Capita Gross General Obligation Debt -		\$1,064	

*Preliminary; subject to change.

⁽¹⁾ See "AD VALOREM TAXATION" in the Official Statement description of the Issuer's taxation procedures.

OTHER OBLIGATIONS - CAPITAL LEASES AND NOTES PAYABLE **TABLE 3**

The City has entered into various lease agreements to finance the acquisition of various vehicles, machinery and equipment

The following is a schedule of future minimum capital lease payments for the City as of July 31, 2016;

<u>Description</u>	<u>Principal Amount</u> <u>Outstanding</u>	<u>Final Payment</u> <u>Amount</u>	<u>Final Payment</u> <u>Date</u>	<u>Frequency</u>
Dispatch Consoles				
and Radio Tower	\$ 625,523.18	\$ 25,619.59	10/1/2023	Annual
2015 Ram 3500	18,709.00	9,847.00	4/1/2018	Annual
2015 J.D. Backhoe	72,964.86	19,474.86	12/1/2019	Annual
2016 Police SUV (2)	48,765.27	17,336.22	10/15/2018	Annual
	-	-		
Total	\$ 765,962.31	\$ 72,277.67		

Source: The Issuer.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

Fiscal Year 30-Sep	Current Total Debt Service	The 2016 Certificates*			Combined Debt Service	Less: Self- Supporting Debt	Net General Obligation Debt Service
		Principal	Interest	Total			
2017	\$ 710,000	\$ 90,000	39,146	\$ 129,146	\$ 839,146	\$ (556,458)	\$ 282,688
2018	712,113	80,000	45,175	125,175	837,288	(550,750)	286,538
2019	708,303	85,000	43,575	128,575	836,878	(557,328)	279,550
2020	709,299	85,000	41,875	126,875	836,174	(553,612)	282,563
2021	708,198	85,000	40,175	125,175	833,373	(554,811)	278,563
2022	711,703	90,000	38,475	128,475	840,178	(555,815)	284,363
2023	289,523	90,000	36,675	126,675	416,198	(251,635)	164,563
2024	281,703	90,000	34,875	124,875	406,578	(247,415)	159,163
2025	283,883	95,000	32,625	127,625	411,508	(247,745)	163,763
2026	285,663	95,000	30,250	125,250	410,913	(247,950)	162,963
2027	281,758	100,000	27,875	127,875	409,633	(248,045)	161,588
2028	122,640	100,000	25,375	125,375	248,015	(248,015)	-
2029		105,000	22,875	127,875	127,875	(127,875)	-
2030		105,000	20,250	125,250	125,250	(125,250)	-
2031		110,000	17,625	127,625	127,625	(127,625)	-
2032		115,000	14,875	129,875	129,875	(129,875)	-
2033		115,000	12,000	127,000	127,000	(127,000)	-
2034		120,000	9,125	129,125	129,125	(129,125)	-
2035		120,000	6,125	126,125	126,125	(126,125)	-
2036		125,000	3,125	128,125	128,125	(128,125)	-
	<u>\$ 5,804,786</u>	<u>\$ 2,000,000</u>	<u>\$ 542,096</u>	<u>\$ 2,542,096</u>	<u>\$ 8,346,882</u>	<u>\$ (5,840,578)</u>	<u>\$ 2,506,304</u>

*Preliminary; subject to change.

TAX ADEQUACY (Includes Self-Supporting Debt)

TABLE 5 A

2016 Assessed Valuation	\$ 323,192,232
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-22)	\$ 840,178 *
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	\$ 0.265268

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

TAX ADEQUACY (Excludes Self-Supporting Debt)

TABLE 5 B

2016 Assessed Valuation	\$ 323,192,232
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-18)	\$ 286,538 *
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	\$ 0.090468

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

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

TABLE 6

<u>Fiscal Year</u> <u>Ending 9/30</u>	<u>Outstanding</u> <u>Debt</u>	<u>Series 2016*</u> <u>Certificates</u>	<u>Total</u>	<u>Bonds</u> <u>Unpaid at</u> <u>End of Year</u>	<u>Percent of</u> <u>Principal</u> <u>Retired (%)</u>
2017	\$ 575,000	\$ 90,000	\$ 665,000	\$ 6,395,000	9.42%
2018	590,000	80,000	670,000	5,725,000	18.91%
2019	600,000	85,000	685,000	5,040,000	28.61%
2020	615,000	85,000	700,000	4,340,000	38.53%
2021	630,000	85,000	715,000	3,625,000	48.65%
2022	650,000	90,000	740,000	2,885,000	59.14%
2023	245,000	90,000	335,000	2,550,000	63.88%
2024	245,000	90,000	335,000	2,215,000	68.63%
2025	255,000	95,000	350,000	1,865,000	73.58%
2026	265,000	95,000	360,000	1,505,000	78.68%
2027	270,000	100,000	370,000	1,135,000	83.92%
2028	120,000	100,000	220,000	915,000	87.04%
2029	-	105,000	105,000	810,000	88.53%
2030	-	105,000	105,000	705,000	90.01%
2031	-	110,000	110,000	595,000	91.57%
2032	-	115,000	115,000	480,000	93.20%
2033	-	115,000	115,000	365,000	94.83%
2034	-	120,000	120,000	245,000	96.53%
2035	-	120,000	120,000	125,000	98.23%
2036	-	125,000	125,000	-	100.00%
	<u>\$ 5,060,000</u>	<u>\$ 2,000,000</u>	<u>\$ 7,060,000</u>		

*Preliminary; subject to change.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2012-2016

TABLE 7

<u>Year</u>	<u>Net Taxable</u> <u>Assessed Valuation</u>	<u>Change From Preceding Year</u>	
		<u>Amount (\$)</u>	<u>Percent</u>
2012	\$ 269,844,591	\$ 9,177,590	3.52%
2013	289,160,899	40,228,916	16.16%
2014	308,377,766	47,210,909	18.08%
2015	310,003,252	56,952,480	22.51%
2016	323,192,232	62,525,231	23.99%

Source: McLennan County Appraisal District

ASSESSED VALUATION AND EXEMPTION HISTORY

TABLE 8

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Appraised Value	\$ 347,633,673	\$ 328,541,426	\$ 325,522,992	\$ 309,936,592	\$ 289,015,941
Less Exemptions:					
Productivity Loss	\$ 1,071,820	\$ 481,120	\$ 510,000	\$ 522,100	\$ 440,088
Cap Loss	1,845,023	1,274,462	2,024,324	4,223,766	470,024
Residential Homestead	-	-	-	-	5,572,618
Veterans	4,965,677	4,301,532	4,296,954	3,896,412	3,675,684
Over 65 & Disabled	2,065,401	2,070,384	101,779	2,110,000	2,049,243
Totally Exempt Property	14,434,984	10,336,224	10,120,390	9,764,800	6,686,912
Pollution Control	58,536	74,452	91,779	258,615	276,781
	<u>\$ 24,441,441</u>	<u>\$ 18,538,174</u>	<u>\$ 17,145,226</u>	<u>\$ 20,775,693</u>	<u>\$ 19,171,350</u>
Net Taxable Assessed Valuation	<u>\$ 323,192,232</u>	<u>\$ 310,003,252</u>	<u>\$ 308,377,766</u>	<u>\$ 289,160,899</u>	<u>\$ 269,844,591</u>

Source: McLennan County Appraisal District

PRINCIPAL TAXPAYERS

TABLE 9

<u>Name</u>	<u>Type of Business</u>	<u>2016 Net Taxable Assessed Valuation</u>	<u>% of Total 2016 Assessed Valuation</u>
Royal Living, Inc.	Health Care	\$ 10,476,830	3.24%
Tymco, Inc.	Manufacturer	10,384,590	3.21%
Motiva Enterprises LLC	Manufacturer	7,239,490	2.24%
Avatar Frontera Waco LLC	Manufacturer	6,150,000	1.90%
Quantuck Waco LLC	Manufacturer	5,385,910	1.67%
Triad Development LTD	Manufacturer	5,019,998	1.55%
Hillcrest Industries LC	Manufacturer	4,964,830	1.54%
Alamo Steel Co.	Fabrication	4,901,980	1.52%
Equalizer Inc.	Consultants	4,822,570	1.49%
McDonald's Real Estate Co.	Real Estate	3,800,000	1.18%
		<u>\$ 63,146,198</u>	<u>19.54%</u>

Based on a 2016 Net Taxable Assessed Valuation of \$ 323,192,232

Source: McLennan County Appraisal District.

PROPERTY TAX RATES AND COLLECTIONS ^(a)

TABLE 10

<u>Tax Year</u>	<u>Net Taxable Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>% Collections</u>		<u>Year Ended</u>
				<u>Current</u>	<u>Total</u>	
2012	\$ 269,844,591	\$ 0.35917	\$ 967,872	65.70%	66.49%	9-30-2013
2013	289,160,899	0.35917	1,033,108	98.72%	98.72%	9-30-2014
2014	308,377,766	0.35720	1,076,478	98.57%	98.57%	9-30-2015
2015	310,003,252	0.35950	1,113,583	98.62%	98.62%	9-30-2016
2016	323,192,232	0.35917	-	in process of collections		9-30-2017

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

Source: City of Lacy Lakeview

TAX RATE DISTRIBUTION

TABLE 11

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011/12</u>
General Fund	\$0.2679	\$0.2648	\$0.0986	\$0.2445	\$0.2345
I & S Fund	<u>\$0.0916</u>	<u>\$0.0924</u>	<u>\$0.2605</u>	<u>\$0.1146</u>	<u>\$0.1247</u>
TOTAL	\$0.3595	\$0.3572	\$0.3592	\$0.3592	\$0.3592

Source: City of Lacy Lakeview

MUNICIPAL SALES TAX

TABLE 12

The City has adopted the provisions of Sections 321.506 & 321.507, Texas Tax Code, which provides for the levy of a sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of obligations or other indebtedness. The City levies a sales tax of 1.50%. Net collections on a calendar year basis are shown below.

<u>Calendar Year</u>	<u>Total Collected</u>
2012	\$ 953,331
2013	1,024,296
2014	1,144,812
2015	1,151,799
2016	758,271*

Source: State Comptroller's Office of the State of Texas and information from the Issuer.

*Through August 2016

OVERLAPPING DEBT DATA AND INFORMATION

TABLE 13

<u>Taxing Body</u>	<u>As of</u>	<u>Net Debt</u>	<u>% Overlapping</u>	<u>Amount Overlapping</u>
Connally ISD	7/31/2016	\$16,635,000	35.28%	\$ 5,868,828
La Vega ISD	7/31/2016	41,497,186	6.79%	2,817,659
McLennan County	7/31/2016	10,350,000	1.70%	175,950
McLennan County Junior College District	7/31/2016	67,370,000	1.70%	1,145,290
Total Gross Overlapping Debt				\$ 10,007,727
City of Lacy Lakeview	7/31/2016	7,060,000 ⁽¹⁾	100.00%	7,060,000
Total Direct and Overlapping Debt				\$ 17,067,727

Ratio of Direct and Overlapping Debt to 2016 Assessed Valuation	5.28%
Ratio of Direct and Overlapping Debt to 2016 Actual Value	4.91%
Per Capita Direct and Overlapping Debt	\$2,573.15

Note: The above figures show Gross General Obligation Debt for the City of Lacy Lakeview, Texas

The Issuer's Net General Obligation Debt is \$ 2,055,000

Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	\$ 12,062,727
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Ratio of Direct and Overlapping Debt to 2016 Assessed Valuation	3.73%
Ratio of Direct and Overlapping Debt to 2016 Actual Value	3.47%
Per Capita Direct and Overlapping Debt	\$1,818.59

⁽¹⁾ Includes the Certificates (See "GENERAL OBLIGATION BONDED DEBT" herein.) Preliminary, subject to change.

Source: City of Lacy Lakeview

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 14

<u>Governmental Entity</u>	<u>2015 Net Taxable Assessed Valuation</u>	<u>2015 Tax Rate</u>
Connally ISD	601,076,183	\$ 1.2816
La Vega ISD	693,987,913	1.4590
McLennan County	12,926,501,736	0.5353
McLennan County JCD	14,535,691,854	0.1497

Source: The Texas Municipal Report published by the Municipal Advisory Council of Texas.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
AND ANALYSIS OF CHANGES IN FUND BALANCES**

TABLE 15

	Fiscal Year Ended September,				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Fund Balance - Beginning of Year	\$ 2,164,883	\$ 1,934,830	\$ 1,690,042	\$ 1,190,127	\$ 868,745
Revenues:					
Property taxes	\$ 1,066,263	\$ 1,028,456	\$ 969,604	\$ 926,401	\$ 920,959
Sales Tax	1,164,213	1,143,572	1,009,197	942,833	902,730
Franchise taxes	348,859	356,899	323,127	366,839	334,477
Other taxes	405,263	372,147	344,663	319,412	6,471
Fines and forfeitures	121,540	129,772	134,918	132,370	120,344
Interest	14,942	16,257	14,175	12,984	14,193
Charges for services	84,921	82,008	76,958	94,542	73,950
License and permits	15,782	16,415	20,367	29,567	26,793
Intergovernmental					-
Grant proceeds					-
Other	<u>122,421</u>	<u>93,498</u>	<u>109,703</u>	<u>142,920</u>	<u>74,764</u>
Total Revenues	\$ 3,344,204	\$ 3,239,024	\$ 3,002,712	\$ 2,967,868	\$ 2,474,681
Expenditures:					
Current:					
General Government	306,926	306,193	284,743	259,799	\$ 135,078
Public Safety	1,593,766	1,516,019	1,377,092	1,285,385	1,288,034
Streets	248,526	269,200	360,831	336,677	272,891
Fire department	158,882	142,890	141,926	120,080	100,155
Recreational and cultural	382,006	430,665	355,934	332,198	
Court	144,562	124,108	122,592	113,608	95,274
Debt service:					
Principal	192,998	144,231	114,738	71,598	216,177
Interest	22,569	29,744	32,276	4,455	72,535
Capital Outlay	<u>487,678</u>	<u>179,093</u>	<u>77,126</u>	<u>177,423</u>	<u>119,876</u>
Total Expenditures	\$ 3,537,913	\$ 3,142,143	\$ 2,867,258	\$ 2,701,223	\$ 2,300,020
Excess (Deficiency) of Revenue	\$ (193,709)	\$ 96,881	\$ 135,454	\$ 266,645	\$ 174,661
Other Financing Sources (Uses)					
Transfers from other funds	479,566	103,108		210,827	
Transfers to other funds					
Proceeds from notes payable			55,280	22,443	119,876
Grant proceeds	<u>12,468</u>	<u>30,064</u>	<u>54,054</u>		
Total Other Financing Sources (Uses)	\$ 492,034	\$ 133,172	\$ 109,334	\$ 233,270	\$ 119,876
Net Change in Fund Balances	<u>298,325</u>	<u>230,053</u>	<u>244,788</u>	<u>499,915</u>	<u>294,537</u>
Fund Balance - End of Year	<u>\$ 2,463,208</u>	<u>\$ 2,164,883</u>	<u>\$ 1,934,830</u>	<u>\$ 1,690,042</u>	<u>\$ 1,163,282</u>

Source: The Issuer's Financial Statements.

FUND BLANCES**TABLE 16**

General Operating Fund	\$ 1,948,810
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GENERAL OBLIGATION BONDS AUTHORIZED BUT NOT ISSUED**TABLE 17**

None

REVENUE BOND DEBT DATA**TABLE 18**

None

REVENUE DEBT SERVICE REQUIREMENTS**TABLE 19**

None

PRINCIPAL WATER CUSTOMERS**TABLE 20**

<u>Name of Customer</u>	<u>Average Monthly Consumption (Gals.)</u>	<u>Average Monthly Bill</u>
Northwind Apts	514,000	\$ 4,099.00
Connally High Baseball Field	345,000	1,794.00
Sherwood Forest Apts	339,000	2,893.00
Meadows Apts	325,000	2,871.00
Meadows Apts	308,000	2,790.00
Meadows Apts	308,000	2,789.00
Northwind Apts	456,000	3,821.00
Meadows Apts	284,000	2,875.00
Meadows Apts	279,000	2,646.00
Sherwood Forest Apts	275,000	2,586.00
Total		<u>\$ 29,164.00</u>

Source: City of Lacy Lakeview (as of July 1, 2016).

WATER		
Residential		
First 2,000 gallons	\$	30.95
Next 8,000 gallons		4.50
Next 5,000 gallons		4.65
Over 15,000 gallons		4.81
SEWER		
Residential		
0-2,000 gallons	\$	22.28
over 2,000 gallons		2.64
not to exceed		43.40

Source: City of Lacy Lakeview

PRINCIPAL SEWER CUSTOMERS

TABLE 22

<u>Name of Customer</u>
Northwind Apts
Connally Baseball Fields
Sherwood Forest Apts
Meadows Apts
Meadows Apts
Meadows Apts
Meadows Apts
Meadows Apts
Sherwood Forest Apts
Total

Source: City of Lacy Lakeview (as of July 31, 2016)

UTILITY SYSTEM OPERATING STATEMENT

TABLE 23

	Fiscal Year Ended September,				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues (plus interest)	\$ 2,828,469	\$ 2,960,089	\$ 2,984,420	\$ 3,061,270	\$ 2,980,836
Expenses (less depreciation)	<u>(2,291,757)</u>	<u>(2,140,198)</u>	<u>(2,118,963)</u>	<u>(2,324,795)</u>	<u>(2,361,620)</u>
Net Revenue Available for De	<u>\$ 536,712</u>	<u>\$ 819,891</u>	<u>\$ 865,457</u>	<u>\$ 736,475</u>	<u>\$ 619,216</u>
Customer Count:	<u>2016*</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Water	2,184	2,180	2,166	2,148	2,104
Sewer	2,085	2,077	2,068	2,053	2,017

Sources: The Issuer's Financial Statements.

*Through July 31, 2016

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF LACY LAKEVIEW AND MCLENNAN COUNTY, TEXAS

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**INFORMATION REGARDING THE CITY OF LACY LAKEVIEW
AND MCLENNAN COUNTY, TEXAS**

GENERAL

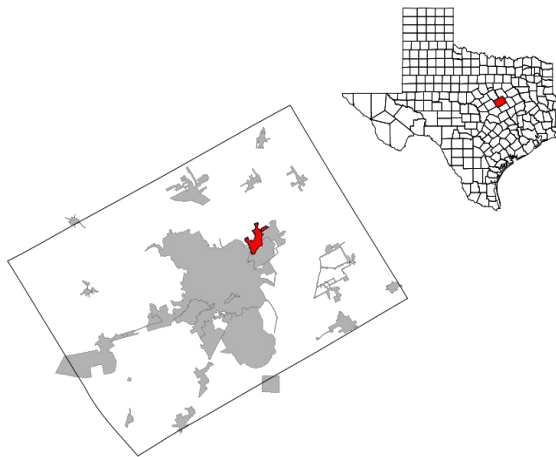
The City of Lacy Lakeview is a growing community located in the central geographic region of Texas. It borders the City of Waco to its south and the City of Bellmead to its east. The Dallas/Ft. Worth area is 85 miles north and the City of Austin is approximately 100 miles to the south.

The history of the City is varied and colorful. It began as a mail route from Waco during the 1880's and was named for William David Lacy. It was located on the infamous Chisholm Trail when cattle were driven north from Brownsville to Kansas and Missouri. It merged with the community of Lakeview in 1953 and became Lacy Lakeview. In 1998 the City merged with the City of Northcrest becoming a home rule city and hired their first City Manager.

Baylor University, McLennan Community College and Texas State Technical College are all three located near the City. The area also boasts of 2 major hospitals, a regional airport, bus, and rail service.

McLennan County was created and organized in 1850 after being settled by Neil McLennan in 1845. The County's economy is based primarily on manufacturing and agriculture with higher education making a significant impact. Agriculture income is derived from beef, hogs, dairy farms, corn and oats. Minerals produced in the County include sand, gravel, stone and clays. The County is traversed by Interstate Highway 35, U. S. Highways, 77, 81, and 84, and State Highways 6, 31 and 317.

Currently, McLennan County includes 22 incorporated cities and 2 unincorporated areas over a span of 1060 square miles with an estimated population of 234,906 for 2010.



LEADING EMPLOYERS IN LACY LAKEVIEW

Employer	Line of Business	2016
		Approximate # Employees
Connally ISD	School District	350
General Dynamics	Call Center	300
Tymco	Manufacturer	161
Cracker Barrel	Restraunt	112
CMC Alamo Steel	Steel Manufacturing	100
Patrick Industries	Custom Vinyls	60
Atwoods	Farm/Ranch Store	50

EMPLOYMENT STATISTICS

	McLennan County		State of Texas	
	<u>July 2016</u>	<u>July 2015</u>	<u>July 2016</u>	<u>July 2015</u>
Total Civilian Labor Force	116,152	113,568	13,386,738	13,120,456
Total Employed	110,816	108,317	12,706,976	12,487,238
Total Unemployed	5,336	5,251	679,762	633,218

UNEMPLOYMENT RATES

	<u>July 2016</u>	<u>July 2015</u>
McLennan County	4.6%	4.6%
State of Texas	5.1	4.8
United States of America	5.1	5.6

Source: Texas Workforce Commission, Austin, Texas

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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LAW OFFICES
McCALL, PARKHURST & HORTON L.L.P.

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SUITE 1800
AUSTIN, TEXAS 78701-3248
TELEPHONE: 512 478-3805
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717 NORTH HARWOOD
SUITE 900
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700 N. ST. MARY'S STREET
SUITE 1525
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE: 210 225-2800
FACSIMILE: 210 225-2984

Proposed Form of Opinion of Bond Counsel

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

**CITY OF LACY LAKEVIEW, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2016
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,000,000**

AS BOND COUNSEL FOR THE CITY OF LACY LAKEVIEW, TEXAS, (the "Issuer") in connection with the issuance of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Certificates and in the ordinance of the Issuer authorizing the issuance and sale of the Certificates (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance and sale of the Certificates, including executed Certificate Number T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from a limited pledge (not to exceed \$1,000) of the surplus revenues, derived from the operation of the Issuer's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding) that are secured by a lien on all or any part of the net revenues of the Issuer's waterworks and sewer system, all as defined and provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code").

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer 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 from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. 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.

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

APPENDIX D

**EXCERPTS FROM THE CITY OF LACY LAKEVIEW AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2015**

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

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CITY OF LACY LAKEVIEW, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

WITH INDEPENDENT AUDITORS'

REPORT THEREON

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FINANCIAL SECTION

COKER, WOMMACK & COMPANY

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

ANTHONY L. WOMMACK,
PRESIDENT
THERESA S. BLUM
TODD E. CLEMMER

BURL D. COKER
STEPHEN E. SPENCER
GREG A. HOEFT

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
Lacy-Lakeview, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lacy-Lakeview, Texas, as of and for the year ended September 30, 2015, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lacy-Lakeview, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3 through 8, the budgetary comparison information on pages 35 and 36, and other required supplementary information on pages 37 and 38 (collectability, the required supplementary information) 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.

Coker, Wommack & Company, P.C.

Waco, Texas
June 13, 2016

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lacy Lakeview, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City of Lacy Lakeview exceeded its liabilities and deferred inflows as of September 30, 2015, by \$ 7,630,993 (net position). Unrestricted net position of the City, however, was \$ 4,010,859 as of September 30, 2015. Unrestricted net position represents those assets that may be used to meet the City's ongoing obligations for citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased by \$ 397,297.
- As of the close of the current fiscal year, the City of Lacy Lakeview's governmental funds reported combined ending fund balances of \$ 2,463,208. Of the ending fund balance \$ 2,444,430 was considered unreserved.
- As of September 30, 2015, unreserved, undesignated fund balance for the General Fund was \$ 2,250,277 or 80% of the total General Fund budgeted expenditures and other financing uses.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements - The government-wide financial statements, which begin on page 9 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, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (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 Safety, Streets, Fire Department, Municipal Court, and Culture and Recreation. The business-type activities of the City include Water and Wastewater activities.

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 two categories - governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 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 11 of this report, information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Hotel-Motel Fund, which is considered to be a major fund.

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

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 15 of this report provide information for the Water and Wastewater Enterprise Fund, since this is considered to be a major fund of the City.

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 19-34 of this report.

GOVERNMENTAL -WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Lacy Lakeview, assets exceeded liabilities by \$ 7,630,993 as of September 30, 2015.

A large portion of the City's net position (\$ 3,564,027) reflects its investments in capital assets (e.g., land, building, machinery and equipment, water system, and sewer system), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF LACY LAKEVIEW'S NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 2,667,520	\$ 2,440,257	\$ 6,351,261	\$ 4,285,711	\$ 9,018,781	\$ 6,725,968
Capital assets	2,563,334	2,412,691	4,218,841	4,185,165	6,782,175	6,597,856
Total assets	<u>5,230,854</u>	<u>4,852,948</u>	<u>10,570,102</u>	<u>8,470,876</u>	<u>15,800,956</u>	<u>13,323,824</u>
Deferred Outflows	268,961	-	213,029	119,825	481,990	119,825
Long-term liabilities	2,045,389	683,533	6,054,400	3,947,316	8,099,789	4,630,849
Other liabilities	106,913	168,545	445,251	326,622	552,164	495,167
Total liabilities	<u>2,152,302</u>	<u>852,078</u>	<u>6,499,651</u>	<u>4,273,938</u>	<u>8,651,953</u>	<u>5,126,016</u>
Net position:						
Invested in capital position, net of related debt	1,625,118	1,764,538	1,938,909	1,818,035	3,564,027	3,582,573
Restricted	-	-	56,107	56,609	56,107	56,609
Unrestricted	<u>1,722,395</u>	<u>2,236,332</u>	<u>2,288,464</u>	<u>2,442,119</u>	<u>4,010,859</u>	<u>4,678,451</u>
Total net position	<u>\$ 3,347,513</u>	<u>\$ 4,000,870</u>	<u>\$ 4,283,480</u>	<u>\$ 4,316,763</u>	<u>\$ 7,630,993</u>	<u>\$ 8,317,633</u>

A portion of the City's net position (\$ 56,107) represents resources that are subject to restriction on how they may be used. The remaining balance \$ 4,010,859 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.

Analysis of the City's operations - The following table provides a summary of the City's operations for the year ended September 30, 2015. Governmental activities increased the City of Lacy Lakeview's net position by \$ 131,394. Business-type activities increased the City's net position by \$ 265,903.

CITY OF LACY LAKEVIEW'S ACTIVITIES

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 337,880	\$ 335,801	\$ 2,828,469	\$ 2,960,089	\$ 3,166,349	\$ 3,295,890
General revenues:						
Property taxes	1,067,112	1,030,351	-	-	1,067,112	1,030,351
Sales taxes	1,164,213	1,143,572	-	-	1,164,213	1,143,572
Franchise taxes	348,859	356,899	-	-	348,859	356,899
Other taxes	405,263	372,147	-	-	405,263	372,147
Interest income	14,942	16,257	79,013	77,274	93,955	93,531
Other income	<u>12,468</u>	<u>30,064</u>	<u>-</u>	<u>-</u>	<u>12,468</u>	<u>30,064</u>
Total revenues	<u>3,350,737</u>	<u>3,285,091</u>	<u>2,907,482</u>	<u>3,037,363</u>	<u>6,258,219</u>	<u>6,322,454</u>

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Expenses:						
General government	\$ 332,949	\$ 325,999	\$ -	\$ -	\$ 332,949	\$ 325,999
Public safety	1,863,273	1,707,647	-	-	1,863,273	1,707,647
Streets	270,960	291,564	-	-	270,960	291,564
Fire department	180,618	142,069	-	-	180,618	142,069
Municipal court	145,650	125,289	-	-	145,650	125,289
Culture and recreation	399,829	457,716	-	-	399,829	457,716
Interest and amortization on long-term debt	26,064	26,357	175,945	128,025	202,009	154,382
Water and sewer	-	-	2,465,634	2,348,067	2,465,634	2,348,067
Total expenses	<u>3,219,343</u>	<u>3,076,641</u>	<u>2,641,579</u>	<u>2,476,092</u>	<u>5,860,922</u>	<u>5,552,733</u>
Increase in net position before transfers	131,394	208,450	265,903	561,271	397,297	769,721
Net position – beginning	<u>3,216,119</u>	<u>3,792,420</u>	<u>4,017,577</u>	<u>3,755,492</u>	<u>7,233,696</u>	<u>7,547,912</u>
Net position, ending	<u>\$ 3,347,513</u>	<u>\$ 4,000,870</u>	<u>\$ 4,283,480</u>	<u>\$ 4,316,763</u>	<u>\$ 7,630,993</u>	<u>\$ 8,317,633</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds - The focus of the City of Lacy Lakeview'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, unreserved 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 Lacy Lakeview's governmental funds reported combined ending fund balances of \$ 2,463,208. Of the total fund balance \$ 2,444,430 constitutes unreserved fund balance. Refer to page 11 of this report for a more detailed presentation of governmental fund balances.

In the General Fund, the City originally budgeted for no change in the fund balance. One budget amendment was made during the fiscal year. The actual increase in fund balance for the General Fund was \$ 151,389 for fiscal year 2015.

General fund budgetary highlights - The City made revisions to the original appropriations and expenditures approved by the City Council.

Refer to the General Fund Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual on page 35 of this report for a detailed presentation of the actual General Fund operations compared to both the original and final budget for fiscal year 2015.

Proprietary funds - The City's proprietary fund statements beginning on page 15 of this report provide the same type of information found in the government-wide financial statement, but in more detail.

Unrestricted net position of the major proprietary fund, the Water and Sewer Fund, was \$ 2,288,464. This fund experienced an increase in total net position during 2015 of \$ 265,903.

CAPITAL ASSETS

The City of Lacy Lakeview's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$ 6,782,175 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, water system, and sewer system.

CITY OF LACY LAKEVIEW'S CAPITAL ASSETS AT YEAR-END

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 201,196	\$ 201,196	\$ 53,686	\$ 53,686	\$ 254,882	\$ 254,882
Buildings	1,123,686	1,123,686	-	-	1,123,686	1,123,686
Improvements other than buildings	1,141,215	1,141,215	-	-	1,141,215	1,141,215
Machinery and equipment	3,893,300	3,405,622	1,008,034	956,634	4,901,334	4,362,256
Water system	-	-	4,249,254	4,249,254	4,249,254	4,249,254
Sewer system	-	-	4,208,820	4,052,667	4,208,820	4,052,667
Less: accumulated depreciation	<u>(3,796,063)</u>	<u>(3,459,028)</u>	<u>(5,300,953)</u>	<u>(5,127,076)</u>	<u>(9,097,016)</u>	<u>(8,586,104)</u>
Total assets	<u>\$ 2,563,334</u>	<u>\$ 2,412,691</u>	<u>\$ 4,218,841</u>	<u>\$ 4,185,165</u>	<u>\$ 6,782,175</u>	<u>\$ 6,597,856</u>

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Lacy Lakeview had total bonded debt, and capital lease obligations of \$ 6,559,000. Of this amount, \$ 5,625,000 represents revenue bonds secured by water and sewer revenues. The City's capitalized lease obligations of \$ 934,000 pertain to purchases of equipment.

**OUTSTANDING DEBT AT YEAR-END
BONDS, NOTES AND CAPITALIZED LEASE OBLIGATIONS PAYABLE**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue bonds payable	\$ -	\$ -	\$ 5,625,000	\$ 3,905,000	\$ 5,625,000	\$ 3,905,000
Capitalized lease obligations	<u>909,068</u>	<u>622,500</u>	<u>24,932</u>	<u>47,486</u>	<u>934,000</u>	<u>669,986</u>
Total	<u>\$ 909,068</u>	<u>\$ 622,500</u>	<u>\$ 5,649,932</u>	<u>\$ 3,952,486</u>	<u>\$ 6,559,000</u>	<u>\$ 4,574,986</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Factors that are considered in preparing the City's budget for the 2015-2016 fiscal year are an increase in salaries and insurance costs. The City is levying taxes for the use and support of the municipal government. For the 2015-2016 fiscal year, the City has proposed an increase to the property tax rate of \$.0023 per \$ 100 value which resulted in a tax rate of \$.359537 per \$ 100 value. The City estimates approximately \$ 1,113,000 in property taxes to be collected, which is \$ 46,737 more than taxes collected in the current year.

The City does not plan to increase rates for water and sewer service.

REQUESTS 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 Michelle Hicks, City Secretary, at 501 East Craven, Lacy-Lakeview, Texas 76705 or call 254-799-2458.

**BASIC
FINANCIAL STATEMENTS**

CITY OF LACY LAKEVIEW, TEXAS
STATEMENT OF NET POSITION
September 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 2,442,376	\$ 1,500,931	\$ 3,943,307
Receivables	403,988	310,442	714,430
Internal balances	(178,844)	178,844	-
Restricted cash	-	4,361,044	4,361,044
Capital assets:			
Land	201,196	53,686	254,882
Buildings	1,123,686	-	1,123,686
Improvements other than buildings	1,141,215	-	1,141,215
Machinery and equipment	3,893,300	1,008,034	4,901,334
Water system	-	4,249,254	4,249,254
Sewer system	-	4,208,820	4,208,820
Less: accumulated depreciation	<u>(3,796,063)</u>	<u>(5,300,953)</u>	<u>(9,097,016)</u>
Total capital assets	<u>2,563,334</u>	<u>4,218,841</u>	<u>6,782,175</u>
 Total assets	 <u>5,230,854</u>	 <u>10,570,102</u>	 <u>15,800,956</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on bond refunding	-	110,488	110,488
Pension contribution subsequent to the measurement date (12/31/14)	145,125	55,329	200,454
Variance between projected and actual earnings on pension plan investments	90,107	34,353	124,460
Variance between expected and actual experience regarding pension plan assumptions	<u>33,729</u>	<u>12,859</u>	<u>46,588</u>
	<u>268,961</u>	<u>213,029</u>	<u>481,990</u>
LIABILITIES			
Accounts payable	56,260	193,731	249,991
Accrued liabilities	18,595	44,048	62,643
Customer deposits	2,910	186,172	189,082
Accrued interest payable	29,148	21,300	50,448
Noncurrent liabilities:			
Net pension liability	1,060,900	404,468	1,465,368
Due within one year	183,358	577,264	760,622
Due in more than one year	<u>801,131</u>	<u>5,072,668</u>	<u>5,873,799</u>
Total liabilities	<u>2,152,302</u>	<u>6,499,651</u>	<u>8,651,953</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>-</u>	 <u>-</u>	 <u>-</u>
NET POSITION			
Invested in capital assets, net of related debt	1,625,118	1,938,909	3,564,027
Restricted for:			
Debt service	-	56,107	56,107
Unrestricted	<u>1,722,395</u>	<u>2,288,464</u>	<u>4,010,859</u>
 Total net position	 <u>\$ 3,347,513</u>	 <u>\$ 4,283,480</u>	 <u>\$ 7,630,993</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LACY LAKEVIEW, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 332,949	\$ 213,209	\$ -	\$ 12,468	\$ (107,272)	\$ -	\$ (107,272)
Public safety	1,863,273	-	-	-	(1,863,273)	-	(1,863,273)
Streets	270,960	-	-	-	(270,960)	-	(270,960)
Fire department	180,618	-	-	-	(180,618)	-	(180,618)
Municipal court	145,650	114,756	-	-	(30,894)	-	(30,894)
Culture and recreation	399,829	9,915	-	-	(389,914)	-	(389,914)
Interest on long-term debt	26,064	-	-	-	(26,064)	-	(26,064)
Total governmental activities	<u>3,219,343</u>	<u>337,880</u>	<u>-</u>	<u>12,468</u>	<u>(2,868,995)</u>	<u>-</u>	<u>(2,868,995)</u>
Business-type activities:							
Water and sewer	2,465,634	2,828,469	-	-	-	362,835	362,835
Interest on long-term debt	175,945	-	-	-	-	(175,945)	(175,945)
Total business-type activities	<u>2,641,579</u>	<u>2,828,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>186,890</u>	<u>186,890</u>
Total primary government	<u>\$ 5,860,922</u>	<u>\$ 3,166,349</u>	<u>\$ -</u>	<u>\$ 12,468</u>	<u>\$ (2,868,995)</u>	<u>\$ 186,890</u>	<u>\$ (2,682,105)</u>
General revenues:							
Taxes:							
Property					\$ 1,067,112	\$ -	\$ 1,067,112
Sales					1,164,213	-	1,164,213
Franchise					348,859	-	348,859
Other					405,263	-	405,263
Interest income					14,942	79,013	93,955
Other income					-	-	-
Total general revenues and transfers					<u>3,000,389</u>	<u>79,013</u>	<u>3,079,402</u>
Change in net position					131,394	265,903	397,297
Net position, beginning, as restated					<u>3,216,119</u>	<u>4,017,577</u>	<u>7,233,696</u>
Net position, ending					<u>\$ 3,347,513</u>	<u>\$ 4,283,480</u>	<u>\$ 7,630,993</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LACY-LAKEVIEW, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2015

	General	Hotel - Motel	Total Governmental Funds
ASSETS			
Cash and investments	\$ 2,220,865	\$ 221,511	\$ 2,442,376
Receivables (net of allowance for uncollectibles):			
Taxes	227,870	95,327	323,197
Miscellaneous	80,791	-	80,791
Total assets	\$ 2,529,526	\$ 316,838	\$ 2,846,364
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 56,260	\$ -	\$ 56,260
Accrued liabilities	18,595	-	18,595
Deferred revenue	126,547	-	126,547
Due to other funds	56,159	122,685	178,844
Customer deposits	2,910	-	2,910
Total liabilities	260,471	122,685	383,156
Fund balances:			
Nonspendable	-	-	-
Restricted	18,778	-	18,778
Assigned	-	-	-
Unassigned	2,250,277	194,153	2,444,430
Total fund balances	2,269,055	194,153	2,463,208
Total liabilities and fund balances	\$ 2,529,526	\$ 316,838	\$ 2,846,364

The notes to the financial statements are an integral part of this statement.

CITY OF LACY LAKEVIEW, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2015

Total fund balance, governmental funds \$ 2,463,208

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 2,563,334

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 126,547

Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. (1,805,576)

Net position of governmental activities in the Statement of Net Position \$ 3,347,513

The notes to the financial statements are an integral part of this statement.

CITY OF LACY LAKEVIEW, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
September 30, 2015

	<u>General</u>	<u>Hotel - Motel</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property	\$ 1,066,263	\$ -	\$ 1,066,263
Sales	1,164,213	-	1,164,213
Franchise	348,859	-	348,859
Other	9,117	396,146	405,263
Licenses and permits	15,782	-	15,782
Fines and forfeitures	121,540	-	121,540
Charges for services	84,921	-	84,921
Interest income	14,667	275	14,942
Miscellaneous	122,421	-	122,421
Total revenues	<u>2,947,783</u>	<u>396,421</u>	<u>3,344,204</u>
EXPENDITURES			
Current:			
General government	306,926	-	306,926
Public safety	1,593,766	-	1,593,766
Streets	248,526	-	248,526
Fire department	158,882	-	158,882
Municipal court	144,562	-	144,562
Culture and recreation	132,521	249,485	382,006
Debt service:			
Principal	192,998	-	192,998
Interest	22,569	-	22,569
Capital outlay	487,678	-	487,678
Total expenditures	<u>3,288,428</u>	<u>249,485</u>	<u>3,537,913</u>
EXCESS OF REVENUES OVER EXPENDITURES	(340,645)	146,936	(193,709)
OTHER FINANCING SOURCES			
Proceeds from debt issued	479,566	-	479,566
Grant revenues	12,468	-	12,468
Total other financing sources	<u>492,034</u>	<u>-</u>	<u>492,034</u>
NET CHANGES IN FUND BALANCES	151,389	146,936	298,325
FUND BALANCES, BEGINNING	<u>2,117,666</u>	<u>47,217</u>	<u>2,164,883</u>
FUND BALANCES, ENDING	<u>\$ 2,269,055</u>	<u>\$ 194,153</u>	<u>\$ 2,463,208</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LACY LAKEVIEW, TEXAS
RECONCILIATION OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
September 30, 2015

Net change in fund balances - total governmental funds: \$ 298,325

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. 150,643

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (5,935)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds. (286,568)

Governmental funds report contributions to pension plans as expenditures, whereas pension expense is recognized in the Statement of Activities. This is the amount by which pension expense exceeded contributions to pension plans in the current period (17,883)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. (7,188)

Change in net position of governmental activities \$ 131,394

The notes to the financial statements are an integral part of this statement.

CITY OF LACY-LAKEVIEW, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2015

	<u>Water and Wastewater</u>
ASSETS	
Current assets:	
Cash and investments	\$ 1,500,931
Receivables (net of allowance for uncollectibles)	310,442
Due from other funds	<u>178,844</u>
Total current assets	1,990,217
Noncurrent assets:	
Restricted cash	4,361,044
Capital assets:	
Land	53,686
Water system	4,249,254
Sewer system	4,208,820
Machinery and equipment	1,008,034
Less: accumulated depreciation	<u>(5,300,953)</u>
Total noncurrent assets	<u>8,579,885</u>
Total assets	<u>10,570,102</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on bond refunding	110,488
Pension contributions subsequent to the measurement date (12/31/14)	55,329
Variance between projected and actual earnings on pension plan investments	34,353
Variance between expected and actual experience regarding pension plan assumptions	<u>12,859</u>
	213,029
LIABILITIES	
Current liabilities:	
Accounts payable	193,731
Accrued liabilities	65,348
Customer deposits	186,172
Revenue bonds - current	565,000
Capital leases payable - current	<u>12,264</u>
Total current liabilities	1,022,515
Noncurrent liabilities:	
Net pension liability	404,468
Revenue bonds payable	5,060,000
Capital leases payable	<u>12,668</u>
Total noncurrent liabilities	<u>5,477,136</u>
Total liabilities	<u>6,499,651</u>
DEFERRED INFLOWS OF RESOURCES	
	<u>-</u>
NET POSITION	
Invested in capital assets, net of related debt	1,938,909
Restricted	56,107
Unrestricted	<u>2,288,464</u>
Total net position	<u>\$ 4,283,480</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LACY-LAKEVIEW, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2015

	<u>Water and Wastewater</u>
OPERATING REVENUES	
Charges for sales and services:	
Water sales	\$ 1,744,812
Sewer charges	1,045,210
Other charges	<u>38,447</u>
Total operating revenues	2,828,469
OPERATING EXPENSES	
Costs of sales and services	937,637
Administration	1,354,120
Depreciation	<u>173,877</u>
Total operating expenses	<u>2,465,634</u>
OPERATING INCOME	<u>362,835</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(175,945)
Interest revenue	<u>79,013</u>
Total nonoperating revenue (expenses)	<u>(96,932)</u>
CHANGE IN NET POSITION	265,903
TOTAL NET POSITION, BEGINNING – AS RESTATED	<u>4,017,577</u>
TOTAL NET POSITION, ENDING	<u>\$ 4,283,480</u>

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES AND
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
September 30, 2015

	Business-type Activities <u>Enterprise Fund</u> Water and <u>Wastewater</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and users	\$ 2,942,475
Cash paid to suppliers for goods and services	(1,505,754)
Cash paid to employees for services	<u>(741,718)</u>
Net cash from operating activities	<u>695,003</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(207,553)
Proceeds from the issuance of debt	2,000,000
Principal paid on debt	(297,384)
Interest and fiscal charge paid on debt	<u>(161,443)</u>
Net cash from capital and related financing activities	<u>1,333,620</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>79,014</u>
Net cash from investing activities	<u>79,014</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,107,637
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,754,338</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 5,861,975</u>
(Including \$ 4,361,044 for water and wastewater reported as restricted assets)	

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES AND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
September 30, 2015

	Business-type Activities <u>Enterprise Fund</u> Water and <u>Wastewater</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 362,835
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	173,877
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Customer receivables	98,246
Increase (decrease) in liabilities:	
Accounts payable	90,619
Due to other funds	(56,159)
Accrued liabilities	9,825
Customer deposits	<u>15,760</u>
Net cash provided by operating activities	<u>\$ 695,003</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

1. **Reporting Entity**

The City of Lacy-Lakeview, Texas (the City), is a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas. The City operates under a City Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Lacy-Lakeview have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The following is a summary of the more significant policies:

For financial reporting purposes, the City includes all funds controlled by or dependent on the City Council. Control by or dependence on the City was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenue or general obligations of the City, obligation of the City to finance any deficits that may occur or receipt of significant subsidies from the City.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic-but not the only-criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to influence significantly operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City can exercise oversight responsibilities. Based upon the application of this criteria, no potential component units exist.

2. **Summary of Significant Accounting Policies**

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 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 revenue available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

The City reports the following major governmental funds:

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

The **Hotel/Motel Special Revenue Fund** - is used to account for hotel and motel taxes collected and expended for the development of tourism.

The City reports the following major proprietary fund:

The **Water and Wastewater Fund** - is used to account for operations that are intended to be self-supporting through user charges. The City of Lacy-Lakeview operates water and wastewater services.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Wastewater Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund 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 revenue and expenses.

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

2. Summary of Significant Accounting Policies

Deposits and Investments

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

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental column in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$ 5,000 (amount not rounded) 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 market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements	39
Machinery and equipment	5 - 10

General infrastructure assets acquired prior to October 1, 2004, are not reported in the basic financial statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to October 1, 2004.

Fund Equity

The City implemented GASB Statement No. 54 during the year ending September 30, 2011. GASB Statement No. 54 requires analysis and presentation of fund balance in five categories. The new fund balance categories are:

- *Non-spendable* – Includes items that are not in a spendable form because they are either legally or contractually required to be maintained intact.
- *Restricted* – Includes items that are restricted by external creditors, grantors, or contributors, or restricted by legal constitutional provisions.
- *Committed* – Includes items committed by the City Council, by resolution of the Council. Commitments may be modified or rescinded by similar resolution.
- *Assigned* – Includes items assigned by specific uses, authorized by the City Manager and/or Finance Director.

- *Unassigned* – This is the residual classification used for those balances not assigned to another category in the General Fund. Deficit fund balance in other governmental funds are also presented as unassigned.

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

2. Summary of Significant Accounting Policies

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. The order of spending available resources is as follows: restricted, committed, assigned, and unassigned.

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

	General Fund	Hotel-Motel	Total Governmental Funds
Fund Balances:			
Nonspendable	\$ -	\$ -	\$ -
Restricted for:			
Police Forfeiture	18,778	-	18,778
Committed to:			
Culture and recreation	-	-	-
Unassigned	2,250,277	194,153	2,444,430
	\$ 2,269,055	\$ 194,153	\$ 2,463,208

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Reconciliation of Government-Wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Some liabilities are not due and payable in the current period and are not included in the fund financial statements." The details of this \$ 1,805,576 difference are as follows:

Interest payable	\$ 29,148
Capital leases	909,068
Compensated absences	75,421
Net pension liabilities	791,939
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	 \$ 1,805,576

CITY OF LACY LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

3. Reconciliation of Government-Wide and Fund Financial Statements

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenue, 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 for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period." The details of this \$ 150,643 difference are as follows:

Capital outlay	\$	487,678
Depreciation expense		<u>(337,035)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position - governmental activities</i>	\$	<u>150,643</u>

Another element of that reconciliation states, "Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned." The details of this \$ 5,935 difference are as follows:

Fines receivable	\$	(6,784)
Property taxes		<u>849</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>(5,935)</u>

Another element of that reconciliation states, "Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report payment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds." The details of this \$ 286,568 difference are as follows:

Principal repayments	\$	192,998
Issuance of debt		<u>(479,566)</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>(286,568)</u>

CITY OF LACY LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

4. **Stewardship, Compliance and Accountability**

A. **Budgetary Information**

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

Prior to the beginning of each fiscal year, the Mayor submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures. All annual appropriations lapse at fiscal year-end.

Public hearings are conducted at which all interested persons' comments concerning the budget are heard.

The budget is legally enacted by the City Council.

Budget revisions can be made during the year.

Formal budgetary integration is employed as a management control device for the General Fund. An informal operating budget is adopted for the Proprietary Fund.

B. **Budgetary Information**

During the year, actual revenues exceeded budget revenues by \$ 597,973. Actual expenditures exceeded budget expenditures by \$ 380,794.

5. **Undivided Interest in Waco Metropolitan Area Regional Sewer System**

The City entered into an agreement with the City of Waco, Texas to acquire a 2.4% undivided interest in the facilities and operations of the Waco Metropolitan Area Regional Sewer System (WMARSS). The City believes that its purchase and operation of the system will increase the efficiency and effectiveness of providing sewer treatment services to its citizens.

Under an interlocal agreement, a WMARSS Board consists of the City managers from each of the seven participating cities. The operation and administration of the system is subject to joint control by the cities through the WMARRS 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 proving services. Further, each city retains an ongoing financial interest and ongoing financial responsibility in the operations of the system.

CITY OF LACY-LAKEVIEW, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2015

6. Deposits and Investments

As of September 30, 2015, the City had the following investments:

Investment Type	Reported Amount	Fair Value
Chase Business High Yield Savings Account	<u>\$ 1,483,646</u>	<u>\$ 1,483,646</u>

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2015, all of the City's \$ 6,899,771 deposit balance was covered by FDIC insurance or pledged securities.

Interest Rate Risk. The City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in shorter-term securities, (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to invest in securities maturing more than one year from the date of purchase. At September 30, 2015, the City's only investment is in a bank savings account.

Credit Risk. It is the City's policy, as defined by the Texas Public Funds Investment Act, to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

7. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2015, is as follows:

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
Water and sewer	Hotel/motel	\$ 122,685
Water and sewer	General	<u>56,159</u>
Total		<u>\$ 178,844</u>

CITY OF LACY LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

8. Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 201,196	\$ -	\$ -	\$ 201,196
Total assets not being depreciated	201,196	-	-	201,196
Capital assets, being depreciated:				
Buildings	1,123,686	-	-	1,123,686
Improvements other than buildings	1,141,215	-	-	1,141,215
Machinery and equipment	<u>3,405,622</u>	<u>487,678</u>	-	<u>3,893,300</u>
Total capital assets being depreciated	5,670,523	487,678	-	6,158,201
Less accumulated depreciation:				
Buildings	360,747	21,537	-	382,284
Improvements other than buildings	517,330	21,220	-	538,550
Machinery and equipment	<u>2,580,951</u>	<u>294,278</u>	-	<u>2,875,229</u>
Total accumulated depreciation	<u>3,459,028</u>	<u>337,035</u>	-	<u>3,796,063</u>
Total capital assets being depreciated, net	<u>2,211,495</u>	<u>150,643</u>	-	<u>2,362,138</u>
Governmental activities capital assets, net	<u>\$ 2,412,691</u>	<u>\$ 150,643</u>	<u>\$ -</u>	<u>\$ 2,563,334</u>

CITY OF LACY LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

8. Capital Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 53,686	\$ -	\$ -	\$ 53,686
Total assets not being depreciated	53,686	-	-	53,686
Capital assets, being depreciated:				
Water system	4,249,254	-	-	4,249,254
Sewer system	4,052,667	156,153	-	4,208,820
Equipment	956,634	51,400	-	1,008,034
Total capital assets being depreciated	9,258,555	207,553	-	9,466,108
Less accumulated depreciation:				
Water system	2,606,829	76,624	-	2,683,453
Sewer system	1,612,840	75,832	-	1,688,672
Equipment	907,407	21,421	-	928,828
Total accumulated depreciation	5,127,076	173,877	-	5,300,953
Total capital assets being depreciated, net	4,131,479	33,676	-	4,165,155
Business-type activities capital assets, net	<u>\$ 4,185,165</u>	<u>\$ 33,676</u>	<u>\$ -</u>	<u>\$ 4,218,841</u>

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

Governmental activities:	
General government	\$ 22,957
Public safety	254,491
Streets	23,440
Fire department	19,834
Culture and recreation	<u>16,313</u>
Total depreciation expense - governmental activities	<u>\$ 337,035</u>
Business-type activities:	
Water and wastewater	<u>\$ 173,877</u>
Total depreciation expense - business-type activities	<u>\$ 173,877</u>

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

9. Long-term Liabilities

Long-term liability activity for the year ended September 30, 2015, was as follows:

	Balance October 1, 2014	Additions	Retirements	Balance September 30, 2015	Amounts Due Within One Year
<u>Government activities</u>					
Capital leases	\$ 622,500	\$ 479,566	\$ 192,998	\$ 909,068	\$ 160,732
Compensated absences	61,033	14,388	-	75,421	22,626
Total governmental activities	<u>\$ 683,533</u>	<u>\$ 493,954</u>	<u>\$ 192,998</u>	<u>\$ 984,489</u>	<u>\$ 183,358</u>
<u>Business-type activities</u>					
Revenue bonds	\$ 3,905,000	\$ 2,000,000	\$ 280,000	\$ 5,625,000	\$ 565,000
Capital leases	42,316	-	17,384	24,932	12,264
Compensated absences	32,190	4,620	-	36,810	11,043
Total business-type activities	<u>\$ 3,979,506</u>	<u>\$ 2,004,620</u>	<u>\$ 297,384</u>	<u>\$ 5,686,742</u>	<u>\$ 588,307</u>

Business-type activities long-term liabilities at September 30, 2015, consisted of the following:

Revenue Bonds

Series	Original Issue	Interest Rate	Debt Outstanding
2010 General obligation refunding bonds	\$ 3,035,000	2.00% to 4.25%	\$ 2,255,000
2013 Combination tax and revenue certificates of obligation	1,540,000	2.20%	1,370,000
2015 Tax notes	2,000,000	1.69%	2,000,000

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

9. Long-term Liabilities

Revenue Bonds

The annual debt service requirements to be paid on business-type activities long-term debt outstanding at September 30, 2015, are as follows:

<u>September 30,</u>	<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 565,000	\$ 147,065	\$ 712,065
2017	575,000	135,000	710,000
2018	590,000	122,113	712,113
2019	600,000	108,303	708,303
2020	615,000	94,300	709,300
2021-2025	2,025,000	250,006	2,275,006
2026-2029	655,000	35,060	690,060
	<u>\$ 5,625,000</u>	<u>\$ 891,847</u>	<u>\$ 6,516,847</u>

Obligations Under Capital Leases

In prior years, the City entered into capital lease agreements in order to purchase machinery and equipment for public works, administration, and the police department. The following is a summary of future lease payments due on this machinery and equipment.

<u>September 30</u>	<u>Governmental Activities</u>	<u>Water and Sewer Authority Activities</u>
2016	\$ 181,360	\$ 13,084
2017	166,320	13,084
2018	139,359	-
2019	96,687	-
2020	98,687	-
2021 & Thereafter	321,681	-
	1,004,094	26,168
Less interest portion	(95,026)	(1,236)
Obligations under capital leases	<u>\$ 909,068</u>	<u>\$ 24,932</u>

Prior Year Defeasance of Bonds

During the year ended September 30, 2011, 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 were not included in the City's financial statements.

CITY OF LACY-LAKEVIEW, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2015

10. Pension Plan

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2014	Plan Year 2015
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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

At the December 31, 2014, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	25
Active employees	49
	<u>92</u>

Contributions

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

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

10. Pension Plan

Contributions

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.94% and 13.70% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$ 261,153, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

10. Pension Plan

Net Pension Liability

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	<u>100.0%</u>	

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the Total Pension Liability.

Changes in the Net Pension Liability for the plan year ending December 31, 2014 were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balance at 12/31/13	\$ 5,821,988	\$ 4,554,267	\$ 1,267,721
Changes for the year:			
Service Cost	256,056	-	256,056
Interest	409,373	-	409,373
Change of benefit terms	-	-	-
Difference between expected and actual experience	161,622	-	161,622
Changes of assumptions	-	-	-
Contributions – employer	-	240,146	(240,146)
Contributions – employee	-	131,638	(131,638)
Net investment income	-	260,564	(260,564)
Benefit payments, including refunds of employee contributions	(203,653)	(203,653)	-
Administrative expense	-	(2,720)	2,720
Other changes	-	(224)	224
Net Changes	<u>623,398</u>	<u>425,751</u>	<u>197,647</u>
Balance at 12/31/14	<u>\$ 6,445,386</u>	<u>\$ 4,980,018</u>	<u>\$ 1,465,368</u>

CITY OF LACY LAKEVIEW, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2015

10. Pension Plan

Net Pension Liability

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$ 2,593,523	\$ 1,465,368	\$ 571,820

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

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

For the year ended September 30, 2015, the city recognized pension expense of \$ 261,153.

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

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 46,588	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	124,460	-
Contributions subsequent to the measurement date	200,454	-
Total	\$ 371,502	\$ -

\$ 200,454 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	
2015	\$ 48,809
2016	48,809
2017	48,809
2018	24,621
2019	-
Thereafter	-
	\$ 171,048

CITY OF LACY-LAKEVIEW, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2015

11. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and workmen's compensation coverages. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides that the pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

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

12. Restatement of Beginning Net Position

During the year ended September 30, 2015, the City implemented Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date which became effective for financial statements with periods beginning after June 15, 2014. GASB Statement No. 68, as amended by GASB Statement No. 71, requires that a liability be recognized and recorded associated with the net pension liability of the City, net of contributions made by the City subsequent to the measurement date with the cumulative effect of applying this Statement being reported as a restatement of beginning net position for the earliest period restated which resulted in the following restatement.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Position at September 30, 2014	\$ 4,000,870	\$ 4,316,763	\$ 8,317,633
Net Pension Liability at Measurement Date (December 31, 2013)	(917,807)	(349,914)	(1,267,721)
Pension Contributions Made Subsequent to the Measurement Date (December 31, 2013)	<u>133,056</u>	<u>50,728</u>	<u>183,784</u>
Net Position at September 30, 2014, as restated	<u>\$ 3,216,119</u>	<u>\$ 4,017,577</u>	<u>\$ 7,233,696</u>

CITY OF LACY LAKEVIEW, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property	\$ 1,076,740	\$ 1,076,740	\$ 1,066,263	\$ (10,477)
Sales	1,050,000	1,050,000	1,164,213	114,213
Franchise	350,000	350,000	348,859	(1,141)
Other	7,000	7,000	9,117	2,117
Licenses and permits	13,500	13,500	15,782	2,282
Fines and forfeitures	117,000	122,988	121,540	(1,448)
Charges for services	74,393	74,393	84,921	10,528
Interest income	11,700	11,700	14,667	2,967
Miscellaneous	123,030	123,030	122,421	(609)
Total revenues	<u>2,823,363</u>	<u>2,829,351</u>	<u>2,947,783</u>	<u>118,432</u>
EXPENDITURES				
Current:				
General government	402,421	394,976	306,926	88,050
Public safety	1,590,950	1,590,950	1,593,766	(2,816)
Streets	253,621	253,621	248,526	5,095
Fire department	140,914	146,902	158,882	(11,980)
Parks	132,728	132,728	132,521	207
Municipal court	128,796	128,796	144,562	(15,766)
Debt service:				
Principal	91,389	91,389	192,998	(101,609)
Interest	-	-	22,569	(22,569)
Capital outlay	82,544	102,457	487,678	(385,221)
Total expenditures	<u>2,823,363</u>	<u>2,841,819</u>	<u>3,288,428</u>	<u>(446,609)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(12,468)</u>	<u>(340,645)</u>	<u>(328,177)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issued	-	-	479,566	479,566
Grants	-	12,468	12,468	-
Total other financing sources (uses)	<u>-</u>	<u>12,468</u>	<u>492,034</u>	<u>479,566</u>
NET CHANGE IN FUND BALANCES	-	-	151,389	151,389
FUND BALANCES, BEGINNING	<u>2,117,666</u>	<u>2,117,666</u>	<u>2,117,666</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,117,666</u>	<u>\$ 2,117,666</u>	<u>\$ 2,269,055</u>	<u>\$ 151,389</u>

See auditors' report.

CITY OF LACY-LAKEVIEW, TEXAS
HOTEL - MOTEL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Other	\$ 315,000	\$ 315,000	\$ 396,146	\$ 81,146
Total revenues	<u>315,000</u>	<u>315,000</u>	<u>396,146</u>	<u>81,146</u>
EXPENDITURES				
Current:				
Culture and recreation	315,300	315,300	249,485	65,815
Capital outlay	-	-	-	-
Total expenditures	<u>315,300</u>	<u>315,300</u>	<u>249,485</u>	<u>65,815</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(300)	(300)	146,661	146,961
OTHER FINANCING SOURCES (USES)				
Interest income	300	300	275	(25)
Total other financing sources (uses)	<u>300</u>	<u>300</u>	<u>275</u>	<u>(25)</u>
NET CHANGE IN FUND BALANCE	-	-	146,936	146,936
FUND BALANCE, BEGINNING	<u>47,217</u>	<u>47,217</u>	<u>47,217</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 47,217</u>	<u>\$ 47,217</u>	<u>\$ 194,153</u>	<u>\$ 146,936</u>

See auditors' report.

CITY OF LACY LAKEVIEW, TEXAS
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
For the Year Ended September 30, 2015

	12/31/14
<u>TOTAL PENSION LIABILITY</u>	
Service Cost	\$ 256,056
Interest (on the Total Pension Liability)	409,373
Changes of benefit terms	-
Difference between expected and actual experience	161,622
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(203,653)
Net Change in Total Pension Liability	623,398
Total Pension Liability – Beginning	5,821,988
Total Pension Liability – Ending (a)	\$ 6,445,386
<u>PLAN FIDUCIARY NET POSITION</u>	
Contributions – Employer	\$ 240,146
Contributions – Employee	131,638
Net Investment Income	260,564
Benefit payments, including refunds of employee contributions	(203,653)
Administrative Expense	(2,720)
Other	(224)
Net Change in Plan Fiduciary Net Position	425,751
Plan Fiduciary Net Position – Beginning	4,554,267
Plan Fiduciary Net Position – Ending (b)	\$ 4,980,018
Net Pension Liability – Ending (a) – (b)	\$ 1,465,368
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	77.26%
Covered Employee Payroll	\$ 1,869,604
Net Pension Liability as a Percentage of Covered Employee Payroll	78.38%

Notes to Schedule

N/A

Note

GASB Statement No. 68 requires 10 years of data to be presented; however, the year ended September 30, 2015 was the first year of implementation with the above schedule to be created by the City prospectively, over the next 10 year period.

See auditors' report.

CITY OF LACY-LAKEVIEW, TEXAS
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For the Year Ended September 30, 2015

	<u>09/30/15</u>
Actuarially Determined Contribution	\$ 260,015
Contributions in relation to the actuarially determined contribution	260,015
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 1,869,604
Contributions as a percentage of covered employee payroll	13.91%

Notes to Schedule of Employer Contributions

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information

There were no benefit changes during the year.

Note

GASB Statement No. 68 requires 10 years of data to be presented; however, the year ended September 30, 2015 was the first year of implementation with the above schedule to be created by the City prospectively, over the next 10 year period.

See auditors' report.

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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