

PRELIMINARY OFFICIAL STATEMENT

Dated September 29, 2016

Ratings:
S&P: "A" (stable outlook)
(See "BOND INSURANCE" and
"OTHER INFORMATION -
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, 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 Exemption" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS

\$3,070,000*
CITY OF MULESHOE, TEXAS
(Bailey County)
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2016

Dated Date: October 1, 2016

Due: February 15, as shown on page 2

Interest Accrues from the Initial Delivery Date

PAYMENT TERMS . . . Interest on the \$3,070,000* City of Muleshoe, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2016 (the "Certificates") will accrue from the date of initial delivery and will be due on August 15, 2017, and each February 15 and August 15 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is the UMB Bank, Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and constitute direct obligations of the City of Muleshoe, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of \$1,000 of net revenues of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES - Authority for Issuance" and "– Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the construction of public works, to wit: improvements to the City Waterworks and Sewer System including improvements to and the purchase of new storage tanks and construction of a new substation, and (ii) professional services rendered in relation to such projects and purposes and the financing thereof.

CUSIP PREFIX: 625183

SEE MATURITY SCHEDULE, 9 Digit CUSIP AND
REDEMPTION PROVISIONS ON PAGE 2

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion of Underwood Law Firm, P.C., Bond Counsel, Amarillo, Texas, (see "APPENDIX C - Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

DELIVERY . . . It is expected that the Certificates will be available for delivery through the facilities of DTC on November 10, 2016.

SAMCO CAPITAL MARKETS, INC.

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE*

<u>Maturity (February 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
2018	\$ 180,000			
2019	180,000			
2020	185,000			
2021	190,000			
2022	190,000			
2023	195,000			
2024	200,000			
2025	200,000			
2026	205,000			
2027	210,000			
2028	215,000			
2029	220,000			
2030	225,000			
2031	235,000			
2032	240,000			

(Interest Accrues from the Initial Delivery Date)

* Preliminary, subject to change.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor, or the Underwriter takes any responsibility for the accuracy of CUSIP numbers.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 20, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE CERTIFICATES – Optional Redemption".

For purpose of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected from time to time, may be treated as an Official Statement with respect to the Certificates described herein "deemed final" by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information provided by Subsection (b)(1) of Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell the Certificates in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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, and is not to be construed as a representation by the Financial Advisor, the City or the Underwriter. 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.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NONE OF THE CITY, THE FINANCIAL ADVISOR, THE UNDERWRITER, OR BOND COUNSEL MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM OR ANY INFORMATION UNDER THE CAPTION "BOND INSURANCE".

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 hereto, to obtain information essential to making an informed investment decision.

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

This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, and achievements to be different from future results, performance, and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The Certificates are exempt from registration with the Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Certificates in accordance with applicable securities law provisions of the jurisdiction in which the Certificates have been registered, qualified or exempted should not be regarded as a recommendation thereof.

TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY	4	TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS	20
CITY OFFICIALS, STAFF AND CONSULTANTS.....	6	TABLE 10 - OTHER OBLIGATIONS	20
INTRODUCTION.....	7	FINANCIAL INFORMATION	21
THE CERTIFICATES.....	7	TABLE 11 - CHANGE IN NET POSITION.....	21
BOND INSURANCE.....	12	TABLE 11-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY	22
BOND INSURANCE GENERAL RISKS.....	12	TABLE 12 - MUNICIPAL SALES TAX HISTORY.....	23
TAX INFORMATION	13	TABLE 13 - CURRENT INVESTMENTS	25
TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT	16	TAX MATTERS	26
TABLE 2 - VALUATION AND GENERAL OBLIGATION SUPPORTED DEBT HISTORY	17	CONTINUING DISCLOSURE OF INFORMATION	27
TABLE 3 - TAX RATE, LEVY AND COLLECTION HISTORY ..	17	OTHER INFORMATION	29
TABLE 4 - TEN LARGEST TAXPAYERS	17	APPENDICES	
TABLE 5 - TAX ADEQUACY	18	GENERAL INFORMATION REGARDING THE CITY	A
TABLE 6 - ESTIMATED OVERLAPPING DEBT.....	18	EXCERPTS FROM THE ANNUAL FINANCIAL REPORT	B
DEBT INFORMATION.....	19	FORM OF BOND COUNSEL'S OPINION	C
TABLE 7 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS	19		
TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION	20		

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

OFFICIAL STATEMENT SUMMARY

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

THE CITY..... The City of Muleshoe (the "City") is a political subdivision and municipal corporation of the State, located in Bailey County, Texas. The City covers approximately 24 square miles (see "INTRODUCTION - Description of the City").

THE CERTIFICATES The Certificates are issued as \$3,070,000* Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2016. The Certificates are issued as serial Certificates maturing February 15 in the years 2018 through and including 2032, unless the Underwriter designates one or more maturities as Term Certificates (see "THE CERTIFICATES - Description of the Certificates").

PAYMENT OF INTEREST Interest on the Certificates accrues from November 10, 2016 (the Initial Delivery Date), and is payable August 15, 2017, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates" and "- Optional Redemption").

AUTHORITY FOR ISSUANCE..... The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an ordinance passed by the City Council of the City (see "THE CERTIFICATES - Authority for Issuance").

SECURITY FOR THE CERTIFICATES The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of \$1,000 of net revenues of the City's Waterworks and Sewer System (see "THE CERTIFICATES - Security and Source of Payment"). The City has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Certificates. The City has yet to determine whether any insurance will be purchased for the Certificates. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein).

QUALIFIED TAX-EXEMPT OBLIGATIONS..... The City will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions").

REDEMPTION The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 20, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Certificates - Optional Redemption").

TAX EXEMPTION..... In the opinion of Bond Counsel, 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 the caption "Tax Matters" herein, including the alternative minimum tax on corporations.

USE OF PROCEEDS Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the construction of public works, to wit: improvements to the City Waterworks and Sewer System including improvements to and the purchase of new storage tanks and construction of a new substation, and (ii) professional services rendered in relation to such projects and purposes and the financing thereof.

RATING The Certificates are rated "A" with a stable outlook by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") (see "OTHER INFORMATION - Ratings").

* Preliminary, subject to change.

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

PAYMENT RECORD The City has never defaulted in payment of its tax supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	General Obligation G.O. Tax Debt ⁽³⁾	G.O. Tax Debt Per Capita ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed ⁽³⁾	% of Total Tax Collections to Tax Levy ⁽⁴⁾
2013	5,096	\$ 129,070,172	\$ 25,328	\$ 3,365,000	\$ 660	2.61%	99.73%
2014	4,975	125,746,021	25,276	3,200,000	643	2.54%	100.86%
2015	4,975	128,517,379	25,833	3,025,000	608	2.35%	100.63%
2016	4,975	131,157,033	26,363	2,984,000	600	2.28%	100.10% ⁽⁴⁾
2017	4,975	134,661,545	27,068	5,832,000 ⁽⁵⁾	1,172	4.33%	N/A

- (1) Source: Municipal Advisory Council of Texas.
- (2) As reported by the Bailey Central Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.
- (3) Includes self-supporting debt.
- (4) Collections as of July 31, 2016.
- (5) Projected. Includes the Certificates. Preliminary, subject to change.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Fund Balance at Beginning of Year	\$ 1,360,461	\$ 1,345,006	\$ 1,361,733	\$ 1,310,605	\$ 1,260,955
Total Revenue	2,622,187	2,574,165	2,396,379	2,436,643	2,262,098
Total Expenditures	2,911,814	2,921,905	2,763,106	2,700,886	2,702,933
Other Financing Sources (Uses)	447,393	363,195	350,000	315,371	490,485
Fund Balance at End of Year	<u>\$ 1,518,227</u>	<u>\$ 1,360,461</u>	<u>\$ 1,345,006</u>	<u>\$ 1,361,733</u>	<u>\$ 1,310,605</u>

For additional information regarding the City, please contact:

LeAnn Gallman City Manager City of Muleshoe 215 South First Street Muleshoe, Texas 79347 Phone: (806) 272-4528 Fax: (806) 272-5260	or	Vince Viaille Paul N. Jasin Specialized Public Finance Inc. 4925 Greenville Avenue, Suite 465 Dallas, Texas 75206 Phone: (214) 373-3911 Fax: (214) 373-3913
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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Cliff Black Mayor	21 Years	May, 2018	Farm Manager
Colt Ellis Councilmember	3 Years	May, 2019	Funeral Director
Austin Bamert Councilmember	3 Months	May, 2019	Farmer
Eric McElroy Councilmember	8 Years	May, 2017	Owner - Irrigation and Supply Company
Gary Parker Councilmember	8 Years	May, 2017	Sales and Service - Radio, Cable TV, Internet

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Employment Current Position</u>	<u>Length of Employment with City</u>
LeAnn Gallman	City Manager	9 Months	35 Years
Zanea Carpenter	City Secretary	9 Months	12 Years

CONSULTANTS AND ADVISORS

AuditorsRandall L. Field, P.C.
Muleshoe, Texas

Bond CounselUnderwood Law Firm, P.C.
Amarillo, Texas

Financial AdvisorSpecialized Public Finance, Inc.
Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

\$3,070,000*
CITY OF MULESHOE, TEXAS
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2016

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$3,070,000* City of Muleshoe, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2016. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance adopted on the date of sale of the Certificates which authorized the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1926, and first adopted its Home Rule Charter in 1960, and adopted its Home Rule Charter in present form in 1979. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and four Councilmembers. The Mayor and Councilmembers serve staggered three year terms of office. The Councilmembers serve a three year term of office in the four election districts. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 5,158. The City covers approximately 24 square miles.

THE CERTIFICATES

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the construction of public works, to wit: improvements to the City Waterworks and Sewer System including improvements to and the purchase of new storage tanks and construction of a new substation, and (ii) professional services rendered in relation to such projects and purposes and the financing thereof.

DESCRIPTION OF THE CERTIFICATES . . . The Certificates will be dated October 1, 2016 and mature on February 15 in each of the years and in the amounts shown on page 2. Interest on the Certificates will accrue from the date of initial delivery and will be due beginning on August 15, 2017 and each February 15 and August 15 thereafter until maturity or prior redemption. Interest on the Certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

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

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 (the Certificate of Obligation Act of 1971), as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes, which tax must be levied within limits prescribed by law. Additionally, the Certificates are payable from and secured by a limited pledge of \$1,000 of net revenues of the City's Waterworks and Sewer System, as provided in the Ordinance authorizing the Certificates. The City has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Certificates. The City has yet to determine whether any insurance will be purchased for the Certificates. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein).

*Preliminary, subject to change.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City also limits its tax rate to \$2.50 per \$100 Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

DEFEASANCE . . . The Order provides that the District may discharge its obligation to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with the paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. Provided, however, 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 proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates in the aggregate principal amount of such issue, 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 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 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 transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security 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 the 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 such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. In the event the City determines that DTC is incapable of properly discharging its duties as securities depository for the Certificates, the City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

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

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

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

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

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

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

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

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance does not establish specific events of default with respect to the Certificates. If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the Ordinance provides the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates if there is no other available remedy at law to compel performance of the Certificates or 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 certificateholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, __ S.W. 3d __ (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has

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, certificateholders may not be able to bring such a suit against the City for breach of the Certificates or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

SOURCES AND USES OF CERTIFICATE PROCEEDS . . . Proceeds from the sale of the Certificates are expected to be expended as follows:

SOURCES OF FUNDS:

Principal Amount of the Certificates	\$	-
Reoffering Premium		-
Original Issue Discount		-
Total Sources of Funds	\$	-

USES OF FUNDS:

Deposit to Project Construction Fund	\$	-
Underwriter's Discount		-
Costs of Issuance/Rounding Amount		-
Total Uses of Funds	\$	-

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BOND INSURANCE

The City has made an application for an insurance policy insuring the timely payment of the principal of and interest on the Certificates with a municipal bond insurance company (the “Insurer”). If the City obtains a commitment from an Insurer to provide a municipal bond insurance policy relating to the Certificates (the “Policy”), the final Official Statement shall disclose relevant information relating to the Insurer and the Policy.

BOND INSURANCE GENERAL RISKS

GENERAL . . . *The City has yet to determine whether any insurance will be purchased with respect to the Certificates. If an insurance policy is purchased, the following are risk factors relating to bond insurance.* In the event of default of the payment of principal or interest with respect to the Certificates when all or some becomes due, any owner of the Certificates shall have a claim under the applicable Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates, if any, by the City which is recovered by the City from the bondowner as a voidable preference under applicable bankruptcy law is covered by the insurance 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.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Insurer without appropriate consent. The Insurer may reserve the right to direct and to consent to any remedies available to the holders of the Certificates and the Insurer’s consent may be required in connection with amendments to the Ordinance. 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 moneys received by the Paying Agent/Registrar pursuant to the Ordinance. 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 of the Certificates or the marketability (liquidity) for the Certificates.

The long-term ratings on the Certificates are 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 is given that the long-term ratings of the Insurer and of the ratings on the Certificates insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Certificates or the marketability (liquidity) for the Certificates. See “BOND INSURANCE” herein.

The obligations of the Insurer are general obligations of the Insurer and in an event of default by the Insurer, the remedies available to the Paying Agent/Registrar may be limited by applicable bankruptcy law or other similar laws related to insolvency. Neither the City nor the Underwriter have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay the principal of and interest on the Certificates and the claims paying ability of the Insurer, particularly over the life of the investment. See “BOND INSURANCE” herein for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . Moody’s Investor Services, S&P (defined herein) and Fitch Ratings, Inc. (collectively, the “Rating Agencies”) have, since 2008, downgraded the claims-paying ability and financial strength of providers of municipal bond insurance on multiple occasions. Additional downgrades or negative change in the rating outlook for these bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effect 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 the Insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the Insurer to pay principal and interest on the Certificates and the claims paying ability of the Insurer, particularly over the life of the investment.

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TAX INFORMATION

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

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

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; (2) an exemption of up to 20% (but not less than \$5,000) of the market value of residence homesteads.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; and a disabled veteran who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

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

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

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

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods in transit." "Goods in transit" is defined as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property.

The City may create, and other taxing bodies within its territory may agree to participate in, tax increment financing zones to encourage development and improvements within the zone. The participating taxing bodies may agree to deposit all or a portion of their "tax increment" to the tax increment fund, which funds are used to pay for or finance certain public improvements within the zone. The "tax increment" is the amount of tax collected by a taxing entity in each year on any taxable assessed valuation within the zone in excess of the taxable assessed valuation within the zone as of January 1 of the year in which the zone is created.

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

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

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures 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". Effective 2005, a tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following 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.

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

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

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

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

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

After July, 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 penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition the taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may not provide for a fee that exceeds 20% of the amount of delinquent tax, penalty, and interest collected. 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 court. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants the State-mandated exemptions of \$25,000 for general homestead and an additional \$10,000 for persons 65 years of age and older and the disabled.

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

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt. The City does not tax nonbusiness personal property; and Bailey Central Appraisal District collects taxes for the City. The City does not permit split payments, and discounts are allowed.

The City does tax freeport property.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes. The City has not adopted a tax abatement policy.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2016/17 Market Valuation Established by Bailey Central Appraisal District		\$ 183,157,608
Less Exemptions/Reductions at 100% Market Value:		<u>48,496,063</u>
2016/17 Taxable Assessed Valuation		\$ 134,661,545
City Funded Debt Payable from Ad Valorem Taxes (as of 7/31/16)		\$2,984,000
The Certificates ⁽¹⁾	<u>\$ 3,070,000</u>	<u>\$6,054,000</u> ⁽²⁾
Total Funded Debt Payable from Ad Valorem Taxes		
Interest and Sinking Fund as of 7/31/16		\$ 154,154
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		4.50%

2016 Estimated Population - 4,975
Per Capita Taxable Assessed Valuation \$27,068
Per Capita General Purpose Funded Debt Payable from Ad Valorem Taxes - \$1,217

(1) Preliminary, subject to change.

(2) Includes self-supporting debt. Approximately 60% of the debt service attributable to the City's Tax & WW & SS Revenue Certificates of Obligation, Series 2007 and the City's General Obligation Refunding Bonds, Series 2015 are supported by Waterworks & Sewer System Revenues. It is expected that 100% of the debt service of the Certificates will be supported by Waterworks and Sewer System Revenues. There is no guarantee that the discretionary payments relating to such self-supporting debt will be made in the future from this source. If such payments are not made from the source, or if payments from the source is insufficient, the City is obligated to provide funding for any shortfall through the levy of ad valorem taxes. (For further information see APPENDIX B, "Excerpts from the City's Annual Financial Report" - Note E. 2.)

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TABLE 2 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed ⁽³⁾	G.O. Tax Debt Per Capita ⁽³⁾
2013	5,096	\$ 129,070,172	\$ 25,328	\$ 3,365,000	2.61%	\$ 660
2014	4,975	125,746,021	25,276	3,200,000	2.54%	643
2015	4,975	128,517,379	25,833	3,025,000	2.35%	608
2016	4,975	131,157,033	26,363	2,984,000	2.28%	600
2017	4,975	134,661,545	27,068	5,832,000 ⁽⁴⁾	4.33%	1,172

- (1) Source: Municipal Advisory Council of Texas.
 (2) As reported by the Bailey Central Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.
 (3) Includes self-supporting debt.
 (4) Projected. Includes the Certificates. Preliminary, subject to change.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2012	\$ 0.71360	\$ 0.61780	\$ 0.09580	\$ 912,662	91.86%	100.79%
2013	0.71950	0.62960	0.08990	928,884	94.05%	99.73%
2014	0.74760	0.65880	0.08880	940,106	94.61%	100.86%
2015	0.74950	0.66180	0.08770	955,571	94.89%	100.63%
2016	0.74050	0.65380	0.08670	971,218	95.41% ⁽¹⁾	100.10% ⁽¹⁾

- (1) Collections as of July 31, 2016.

TABLE 4 - TEN LARGEST TAXPAYERS ⁽¹⁾

Name of Taxpayer	2015/16 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
BNSF Railway Company	\$ 2,851,218	2.17%
Cliff Skiles JR	2,710,348	2.07%
Livingston Machinery Company	2,448,596	1.87%
Southwestern Public Service	2,214,137	1.69%
Bailey County Electric	2,167,510	1.65%
Ray Lee Equipment Co LTD	1,648,201	1.26%
United Supermarkets LLC	1,524,661	1.16%
Spirit SPE Loan Portfolio 2013	1,505,014	1.15%
Bailey County Electric	1,495,841	1.14%
Muleshoe State Bank	1,220,256	0.93%
	<u>\$ 19,785,782</u>	<u>15.09%</u>

- (1) Based on 2015/16 Taxable Assessed Valuation of \$131,157,033.

TABLE 5 - TAX ADEQUACY ⁽¹⁾

2016 Tax Supported Debt Principal and Interest Requirements	\$ 291,215
\$0.2230 Tax Rate at 97% Collection Produces	\$ 291,286
Average Tax Supported Debt Annual Principal and Interest Requirements, 2016 - 2032	\$ 432,978
\$0.3315 Tax Rate at 97% Collection Produces	\$ 433,011
Maximum Tax Supported Debt Principal and Interest Requirements, 2024	\$ 527,159
\$0.4036 Tax Rate at 97% Collection Produces	\$ 527,189

(1) Projected. Includes the Certificates and self-supporting debt. Preliminary, subject to change.

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total	Estimated	City's
	G.O. Funded Tax Debt 7/31/2016	% Applicable	Overlapping G.O. Tax Debt As of 7/31/16
City of Muleshoe	\$ 6,054,000 ⁽¹⁾	100.00%	\$ 6,054,000 ⁽¹⁾
Bailey County	2,525,000	38.74%	978,185
Muleshoe Area Hospital District	1,060,000	36.60%	387,960
Muleshoe ISD	18,690,000	48.86%	9,131,934
Total Direct and Overlapping G.O. Debt			\$ 16,552,079
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation			12.29%
Per Capita Overlapping G.O. Debt			\$ 3,327

(1) Projected. Includes the Certificates and self-supporting debt. Preliminary, subject to change.

DEBT INFORMATION

TABLE 7 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt ⁽¹⁾			The Certificates ⁽²⁾			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2016	\$ 241,000	\$ 50,215	\$ 291,215	\$ -	\$ -	\$ -	\$ 291,215
2017	222,000	60,471	282,471	-	49,945	49,945	332,416
2018	226,000	54,040	280,040	180,000	64,033	244,033	524,072
2019	232,000	49,368	281,368	180,000	61,333	241,333	522,701
2020	234,000	44,615	278,615	185,000	58,595	243,595	522,210
2021	240,000	39,780	279,780	190,000	55,783	245,783	525,563
2022	246,000	34,823	280,823	190,000	52,933	242,933	523,755
2023	252,000	29,743	281,743	195,000	49,558	244,558	526,301
2024	257,000	24,551	281,551	200,000	45,608	245,608	527,159
2025	261,000	19,268	280,268	200,000	41,608	241,608	521,875
2026	266,000	13,892	279,892	205,000	37,558	242,558	522,450
2027	270,000	8,425	278,425	210,000	33,408	243,408	521,833
2028	278,000	2,836	280,836	215,000	28,620	243,620	524,456
2029	-	-	-	220,000	23,073	243,073	243,073
2030	-	-	-	225,000	17,231	242,231	242,231
2031	-	-	-	235,000	10,725	245,725	245,725
2032	-	-	-	240,000	3,600	243,600	243,600
	<u>\$3,225,000</u>	<u>\$432,027</u>	<u>\$3,657,027</u>	<u>\$3,070,000</u>	<u>\$633,606</u>	<u>\$3,703,606</u>	<u>\$7,360,633</u>

- (1) Includes self-supporting debt. Approximately 60% of the debt service attributable to the City’s Tax & WW & SS Revenue Certificates of Obligation, Series 2007 and the City’s General Obligation Refunding Bonds, Series 2015 are supported by Waterworks & Sewer System Revenues. There is no guarantee that the discretionary payments relating to such self-supporting debt will be made in the future from this source. If such payments are not made from the source, or if payments from the source is insufficient, the City is obligated to provide funding for any shortfall through the levy of ad valorem taxes. (For further information see APPENDIX B, "Excerpts from the City’s Annual Financial Report" - Note E. 2.)
- (2) It is expected that 100% of the debt service of the Certificates will be supported by Waterworks and Sewer System Revenues. Interest on the Certificates has been calculated as of the posted date of the Preliminary Official Statement for purposes of illustration. Preliminary, subject to change.

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TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION ⁽¹⁾

Gross Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-16 ⁽¹⁾		\$ 291,215
Interest and Sinking Fund Balance, 9-30-15	\$ 113,491	
Budgeted Transfers from Water and Sewer Fund	190,400	
Interest and Sinking Fund Tax Levy	110,302	414,193
Estimated Balance Fiscal Year Ending 9-30-16		<u>\$ 122,978</u>

(1) Projected. Includes the Certificates. Preliminary, subject to change.

TABLE 9 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has \$80,000 authorized but unissued general obligation bonds; these bonds were approved September 10, 1968. The City has no plans to issue these bonds.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

TABLE 10 – OTHER OBLIGATIONS

The City has a note payable to Muleshoe State Bank for a Fire Truck purchase on December 22, 2014 in the amount of \$42,000. The note is to be paid in one annual payment of \$42,000 at an interest rate of 5.00%. The total amount due on September 30, 2016 is \$44,100.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the TMRS plan, see APPENDIX B, "Excerpts from the City's Annual Financial Report" - Note I.)

The City provides pension benefits for the Muleshoe Volunteer Fire Department through the Texas Emergency Services Retirement System (TESRS). The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service. Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases. (For more detailed information concerning the TESRS plan, see APPENDIX B, "Excerpts from the City's Annual Financial Report" - Note O.)

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FINANCIAL INFORMATION

TABLE 11 - CHANGES IN NET POSITION

	Fiscal Years Ended September 30,				
	2015	2014	2013	2012	2011
REVENUES					
Program Revenues:					
Charges for services	\$ 982,025	\$ 933,659	\$ 902,854	\$ 874,447	\$ 821,930
Operating grants and contributions	3,458	359,344	28,366	307,449	13,260
Capital grants and contributions	51,288	-	-	323,852	-
General Revenues:					
Property Taxes	979,143	951,112	937,082	932,353	929,431
Sales Taxes	650,934	584,529	573,457	547,636	529,567
Franchise Taxes	288,762	302,528	273,195	277,869	242,541
Occupancy	59,491	58,302	48,245	50,776	61,029
Unrestricted Investment Earnings	17,727	14,674	17,003	38,291	37,925
Gain (Loss) on Sale of Fixed Assets	-	-	-	-	14,000
Total Revenues	\$ 3,032,828	\$ 3,204,148	\$ 2,780,202	\$ 3,352,673	\$ 2,649,683
EXPENSES					
Governmental Activities:					
General Government	\$ 387,171	\$ 623,375	\$ 365,342	\$ 625,500	\$ 327,372
Public Safety	984,912	974,927	976,085	881,958	912,108
Public Works and Transportation	541,052	527,477	523,315	431,471	464,561
Public Facilities	496,310	497,538	533,719	509,802	475,357
Health and Human Services	645	6,324	5,910	4,999	5,733
Culture, parks and recreation	491,065	480,200	467,328	425,053	431,023
Municipal court	50,951	50,698	47,524	44,700	44,580
Code Enforcement	56,287	54,317	51,772	52,732	53,900
Economic Development	154,091	156,984	146,189	262,049	157,003
Airport	31,131	100,929	96,772	113,919	88,615
Interest on Long-Term Debt	129,460	136,376	146,008	161,511	166,634
Total Expenses	\$ 3,323,075	\$ 3,609,145	\$ 3,359,964	\$ 3,513,694	\$ 3,126,886
Increase in net assets before special items	\$ (290,247)	\$ (404,997)	\$ (579,762)	\$ (161,021)	\$ (477,203)
Transfers	\$ 544,090	\$ 549,475	\$ 540,253	\$ 487,195	\$ 536,536
Special item - gain on sale of fixed assets	-	-	-	-	-
Increase (Decrease) in Net Assets	\$ 253,843	\$ 144,478	\$ (39,509)	\$ 326,174	\$ 59,333
Net Position - Beginning	\$ 4,351,664	\$ 4,207,186	\$ 4,246,695 ⁽¹⁾	\$ 4,016,824	\$ 3,957,491
Restatement of Beginning Net Assets	(606,299) ⁽²⁾	-	-	-	-
Net Position - Ending	\$ 3,999,208	\$ 4,351,664	\$ 4,207,186	\$ 4,342,998	\$ 4,016,824

(1) Restated due to GASB Statement No. 65.

(2) The City recorded a net prior period adjustment of (\$768,843) to restate the beginning net pension liability of the TRS pension plan, in accordance with GASB Statement No. 68. The restatement was required to record the beginning net pension liability (\$942,959) and contributions \$174,116 made after the measurement date and during the City's 2014 fiscal year.

TABLE 11-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
<u>Revenues:</u>					
Property Taxes	\$ 859,249	\$ 840,993	\$ 820,376	\$ 805,362	\$ 810,883
Sales Taxes	434,374	390,131	382,640	365,483	353,454
Franchise Taxes	288,762	302,528	273,195	277,869	242,541
Licenses and permits	11,033	9,144	12,597	12,596	9,163
Intergovernmental	54,540	3,567	13,812	94,867	13,260
Charges for Services	849,669	766,080	765,620	773,739	721,058
Fines	62,577	43,631	50,455	45,292	52,117
Interest	3,637	3,655	3,701	18,615	20,030
Miscellaneous	58,346	214,436	73,983	42,820	39,592
Total Revenues	<u>\$ 2,622,187</u>	<u>\$ 2,574,165</u>	<u>\$ 2,396,379</u>	<u>\$ 2,436,643</u>	<u>\$ 2,262,098</u>
<u>Expenditures:</u>					
General Government	\$ 376,540	\$ 343,182	\$ 338,343	\$ 318,885	\$ 298,341
Police	825,346	807,565	789,720	712,641	718,097
Fire	67,952	49,866	67,271	53,404	101,954
Streets	339,694	337,915	352,978	341,260	383,200
Maintenance Equipment	69,129	56,787	44,695	60,136	49,538
Sanitation	425,874	427,218	458,073	435,407	406,499
Health and welfare	-	5,679	5,265	4,354	5,088
Parks	45,425	53,803	46,935	53,951	45,804
Swimming Pool	76,478	68,103	81,938	92,656	100,082
Library	192,202	179,648	187,522	166,705	173,161
Municipal Court	52,359	50,698	47,524	44,700	44,580
Golf Course	73,182	73,110	50,419	14,443	14,443
Code Enforcement	57,681	54,317	51,772	50,732	51,900
Airport	14,444	19,686	15,529	33,432	9,640
Capital Outlay	279,737	300,282	189,215	208,384	206,560
Debt Service	15,771	94,046	35,907	109,796	94,046
Total Expenditures	<u>\$ 2,911,814</u>	<u>\$ 2,921,905</u>	<u>\$ 2,763,106</u>	<u>\$ 2,700,886</u>	<u>\$ 2,702,933</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	\$ (289,627)	\$ (347,740)	\$ (366,727)	\$ (264,243)	\$ (440,835)
Total Other Financing Sources (Uses)	\$ 447,393	\$ 363,195	\$ 350,000	\$ 315,371	\$ 490,485
Net Change in Fund Balance	\$ 157,766	\$ 15,455	\$ (16,727)	\$ 51,128	\$ 49,650
Fund Balances - Beginning	<u>\$ 1,360,461</u>	<u>\$ 1,345,006</u>	<u>\$ 1,361,733</u>	<u>\$ 1,310,605</u>	<u>\$ 1,260,955</u>
Adjustments	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances - Ending	<u><u>\$ 1,518,227</u></u>	<u><u>\$ 1,360,461</u></u>	<u><u>\$ 1,345,006</u></u>	<u><u>\$ 1,361,733</u></u>	<u><u>\$ 1,310,605</u></u>

TABLE 12 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January, 1993, the voters of the City approved the imposition of an additional sales and use tax of one half of one percent (½% of 1%) for economic development. Collection for the additional tax went into effect in January 1994. The sales tax for economic development is collected solely for the benefit of the Muleshoe Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation. Effective October 1, 2012, The City reduced the ½% economic development tax for the benefit of the Corporation by ¼% and simultaneously imposed a ¼% tax for the benefit of street maintenance and repair.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽¹⁾
2012	\$ 365,483	39.67%	\$ 0.2832	\$ 72
2013	382,640	41.20%	0.3043	77
2014	390,131	41.50%	0.3036	78
2015	434,374	45.10%	0.3312	87
2016	364,582 ⁽²⁾	37.54%	0.2707	73

(1) Based on population estimates of City staff.

(2) Partial collections through July 31, 2016.

FINANCIAL POLICIES

Basis of Accounting . . .The City’s accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt.

General Fund . . .The General Fund is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

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

Budgetary Procedures . . .The City follows the procedures below in establishing the budget:

1. Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 14, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Total expenditures may not exceed total appropriation for any budgeted fund without amending the budget.
5. Budgets for the General Fund and Economic Development Funds are adopted on a basis consistent with generally accepted accounting principles. All appropriations lapse at year end.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality 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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) that are issued by or through a depository institution that either 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; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (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 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 Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

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

TABLE 13 - CURRENT INVESTMENTS

As of July 31, 2016, the City's funds were invested in the following categories:

<u>Type of Investment</u>	<u>Market</u>	<u>% of Total Market Value</u>
Bank Accounts	\$ 3,745,223	100.00%
	<u>\$ 3,745,223</u>	<u>100.00%</u>

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TAX MATTERS

TAX EXEMPTION . . . The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on all tax-exempt obligations, including the Certificates, owned by a corporation will be included in such corporation's adjusted current earnings for tax years beginning after 1989, for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

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

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

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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

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

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES . . . Each of the Certificates will be deemed to be issued with original issue discount for federal income tax purposes (a "Discount Certificate"), because the initial interest payment date is more than twelve months after the Certificates will be delivered to the initial purchasers. Original issue discount will also result if the initial public offering price of a Discount Certificate is less than the amount payable on such Discount Certificate at its maturity. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest

on the Certificates described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount and downward for the payments denominated as interest allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

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

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

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 obligation, because, at the time of issuance of the Certificates, the City will not have outstanding more than \$10,000,000 in aggregate amount of outstanding municipal securities (excluding securities offered in transactions that were exempt from the Rule 15c2-12(d)(2)). Pursuant to the exemption, in the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Certificates, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement that is customarily prepared by the City and publicly available, which current consists of an annual audited financial statement. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2016. The City will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the EMMA system at www.emma.msrb.org. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by 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 audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

EVENT NOTICES . . . The City will also provide timely notice (not in excess of ten (10) business days after the occurrence of the event) of any of the following events with respect to the Certificates: (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) bond 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; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. Neither the Certificates nor the Ordinance make any provision for debt service reserves, liquidity enhancement or credit enhancement. As used above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and officials or officers of the City 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. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

AVAILABILITY OF INFORMATION FROM MSRB . . . All information and documentation filings required to be made by the City will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings is provided, without charge to the general public, by the MSRB through its EMMA system at www.emma.msrb.org. Pursuant to subsection (d)(2)(iii) of Rule 15c2-12, the forgoing information, data and notices can be obtained from the City Manager of the City, LeAnn Gallman, 215 South First Street, Muleshoe, Texas 79347, Telephone: (806) 272-4528.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the 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 and beneficial owners of the Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Certificates in the offering made hereby 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 provisions of the Ordinance that authorizes such amendment) of the outstanding Certificates consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements entered into by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Certificates are rated “A” with a stable outlook by S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City 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 it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “Other Information - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

LEGAL MATTERS

The City will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General 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 with respect to the Certificates issued in compliance with the provisions of the Ordinance, a form of which is attached to this Official Statement as APPENDIX C. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. 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 which would affect the provision made for their payment or security or in any manner questioning the validity of said Certificates will also be furnished to the Underwriter. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions “THE CERTIFICATES” (excluding the information under the subcaptions “Book-Entry-Only-System,” and “Sources and Uses of Certificate Proceeds”), “TAX INFORMATION - Tax Rate Limitations”, “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (excluding the information under the subcaption “Compliance with Prior Undertakings”), “OTHER INFORMATION - Registration and Qualification of Certificates for Sale”, “OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds In Texas”, and “OTHER INFORMATION - Legal Matters” (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information 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 upon the sale and delivery of the

Certificates. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

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

FINANCIAL ADVISOR

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

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at a price equal to the initial offering prices to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$_____. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriter.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

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

/s/ _____
Mayor
City of Muleshoe, Texas

ATTEST:

/s/ _____
City Secretary
City of Muleshoe, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City of Muleshoe, Texas is the county seat of Bailey County and is located 70 miles northwest of Lubbock on the South Plains of West Texas. Muleshoe is the commercial, retail and shipping center for the surrounding highly developed agricultural area with grain elevators, a cotton compress, rail shipping facilities and agribusiness related industries. The 2010 U.S. Census population for the City was 5,158.

MAJOR EMPLOYERS IN THE CITY AREA

<u>Company Name</u>	<u>Category</u>	<u>Employment</u>
Muleshoe ISD	Public education	234
Muleshoe Area Hospital	Medical services	135
Minsa Corporation	Masa corn flour	125
United Supermarkets	Grocery store	100
Bailey County	County government	60
Bailey County Electric	Utility cooperative	43
Five Area Telephone	Telephone & IP	41
Progress Dairy	Dairy farm	40
Leal's Original Restaurant	Mexican food	38
City of Muleshoe	Local government	35
L & L Pallet Supply	Pallet Manufacturing	25
Muleshoe State Bank	Banking	24
First Bank	Banking	19
Bamert Seed Company	Seed Producer	18
Ray Lee Equipment	John Deere Equipment	16
C & H Equipment	Case International Harvester Dealer	12
Livingston Equipment	AGCO & Hesston Equipment	9

Source: Muleshoe Economic Development Corporation.

BAILEY COUNTY HISTORICAL EMPLOYMENT DATA

	<u>Annual Averages</u>				
	<u>July, 2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Civilian Labor Force	2,625	2,761	2,958	3,055	3,186
Total Employment	2,485	2,642	2,809	2,839	2,966
Unemployment	140	119	149	216	220
Percent Unemployment	5.3%	4.3%	5.0%	7.1%	6.9%

Source: Texas Workforce Commission.

EDUCATION

Muleshoe Independent School District is ranked as a Class 2A school with approximately 1,512 students enrolled this year. The system includes kindergarten/primary, elementary, junior high and high school.

Higher education is available through extension courses offered in the City by South Plains College; Texas Tech University in Lubbock and Eastern New Mexico University in Portales, New Mexico are also available.

HEALTH CARE

There is a general acute care facility, Muleshoe Area Medical Center, a nursing home, known as the Muleshoe Area Home Health Agency, and two physician clinics. The hospital is licensed for 31 beds. There is a 91 bed nursing home facility in the process of construction that will include a 16 bed Alzheimer's unit.

BAILEY COUNTY

Bailey County, Texas is a northwest Texas Panhandle county, bordering New Mexico, with an economy based primarily on agriculture. The 2010 U.S. Census population was 7,165.

The sources of agricultural income are dairies, cattle, sorghums, cotton, corn, wheat, vegetables and soybeans.

MISCELLANEOUS

Recreation is provided by City parks with a swimming pool, tennis courts and ball fields. Area Lakes are available for boating and related activities. There are two newspapers, AM and FM radio stations and a television station.

The 5,809 acre Muleshoe National Wildlife Refuge, located in southern Bailey County, is the oldest national refuge in Texas. The refuge serves as a residence for migrating waterfowl, sandhill cranes and other wildlife.

APPENDIX B

EXCERPTS FROM THE CITY OF MULESHOE, TEXAS ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this Appendix consists of excerpts from the City of Muleshoe, Texas Annual Financial Report for the Year Ended September 30, 2015, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

RANDALL L. FIELD, P.C.
214 WEST SECOND
MULESHOE, TEXAS 79347

Independent Auditor's Report

To the City Council
City Of Muleshoe, Texas
215 South First Street
Muleshoe, Texas 79347

I 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 Muleshoe, Texas ("the City") 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In my 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 City Of Muleshoe, 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.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, City Of Muleshoe, Texas adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for contributions made Subsequent to the Measurement Date -- an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information, Schedule of the Changes in Net Liability and Related Ratios and Schedule of City Pension Contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Of Muleshoe, Texas's basic financial statements.


Randall L. Field, P.C.

Muleshoe, TX
December 18, 2015

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2015

This section of City of Muleshoe annual financial report presents our discussion and analysis of the City's financial performance during 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 City's total combined net positions were \$8,056,320 at September 30, 2015. Of this amount, \$1,825,825 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- During the year, the City's total net position increased by \$ 268,624.
- The total cost of the City's programs was virtually unchanged from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$ 1,518,227.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Enterprise fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1F, Required Components of the City's Annual Financial Report

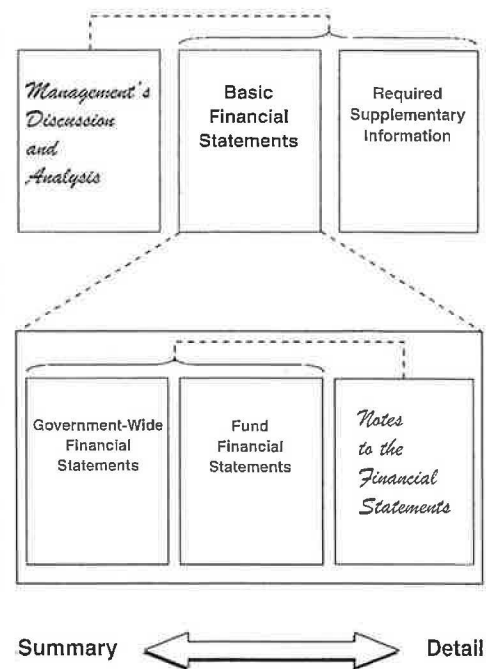


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
 For Year Ended September 30, 2015

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Governmental Funds	Fund Statements Enterprise Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses
<i>Required financial statements</i>	<input type="checkbox"/> Statement of net position	<input type="checkbox"/> Balance sheet	<input type="checkbox"/> Statement of net position
	<input type="checkbox"/> Statement of Activities	<input type="checkbox"/> Statement of revenues, expenditures & changes in fund balance	<input type="checkbox"/> Statement of revenues, expenses & changes in fund net position
			<input type="checkbox"/> Statement of cash flow
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities both financial and capital, short-term and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payments is due during the year or soon thereafter	All revenues and expenses during year, regardless when cash is received or paid

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2015

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes and grants finance most of these activities. The business-type activities of the city include the water and sewer and airport operations.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Enterprise funds*—Services for which the City charges customers a fee are generally reported in enterprise funds. Enterprise funds, like the government-wide statements, provide both long-term and short-term financial information

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provide in the government-wide and fund statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of government's financial position. The City's combined net positions were \$8,056,320 at September 30, 2015.

The largest portion of the City's net position reflects its investments in capital assets (e.g. land, building, equipment, improvements and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital 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 MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2015

CITY OF MULESHOE'S NET POSITION

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 3,132,649	\$ 3,008,161	\$ 1,265,357	\$ 1,151,320	\$ 4,398,006	\$ 4,159,481
Capital assets	4,833,197	4,960,860	3,105,720	3,166,912	7,938,917	8,127,772
Deferred outflow of resources	186,485	-	49,995	-	236,480	-
Total Assets and Deferred Outflow of Resources	8,152,331	7,969,021	4,421,072	4,318,232	12,573,403	12,287,253
Other liabilities	146,110	226,534	164,110	113,357	310,220	339,891
Long-term liabilities	3,965,295	3,390,824	188,664	-	4,153,959	3,390,824
Deferred inflows of resources	41,719	-	11,185	-	52,904	-
Total Liabilities and Deferred Inflows of Resources	4,153,124	3,617,358	363,959	113,357	4,517,083	3,730,715
Net Position:						
Net Investment in Capital Assets	1,776,081	1,756,540	3,105,720	3,166,912	4,881,801	4,923,452
Restricted	1,348,694	1,305,856	-	-	1,348,694	1,305,856
Unrestricted	874,432	1,289,267	951,393	1,037,963	1,825,825	2,327,230
Total Net Position	\$ 3,999,207	\$ 4,351,663	\$ 4,057,113	\$ 4,204,875	\$ 8,056,320	\$ 8,556,538

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$ 1,825,825 may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2015, the City is able to report positive balances in all three categories of Net Position for the governmental as a whole.

Analysis of the City's Operations

The City's total revenues were \$4,419,524. A significant portion, \$1,978,330 of the City's revenue comes from taxes. \$2,416,931 relates to charges for services, while only \$3,458 comes from operating grants.

Governmental Activities Governmental activities increased Net Position after transfers by \$253,843. Governmental program revenues and expenses remained similar to prior year, except for the community development grant.

Business-type Activities: The Water and Sewer fund had an increase in net position for the year and there were no significant variations in revenue or expense in relation to prior year.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2015

The following table provides a summary for the City's operations for year ended September 30, 2015

CITY OF MULESHOE'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues:						
Charges for service	982,025	933,659	1,434,906	1,371,977	2,416,931	2,305,636
Operating grants	3,458	359,344	-	-	3,458	359,344
Capital grants	51,288	-	-	-	-	-
General Revenues:						
Property taxes	979,143	951,112	-	-	979,143	951,112
Sales taxes	650,934	584,529	-	-	650,934	584,529
Franchise taxes	288,762	302,528	-	-	288,762	302,528
Occupancy taxes	59,491	58,302	-	-	59,491	58,302
Investment earnings	17,727	14,674	3,078	2,879	20,805	17,553
Total revenues	3,032,828	3,204,148	1,437,984	1,374,856	4,419,524	4,579,004
Expenses:						
General government	387,171	623,375	-	-	387,171	623,375
Police	868,590	872,751	-	-	868,590	872,751
Fire	116,322	102,176	-	-	116,322	102,176
Streets	473,369	470,690	-	-	473,369	470,690
Maintenance Equipment	67,683	56,787	-	-	67,683	56,787
Sanitation	496,310	497,538	-	-	496,310	497,538
Health and Welfare	645	6,324	-	-	645	6,324
Parks	66,422	72,613	-	-	66,422	72,613
Swimming Pool	154,440	146,065	-	-	154,440	146,065
Library	191,735	183,126	-	-	191,735	183,126
Municipal Court	50,951	50,698	-	-	50,951	50,698
Golf Course	78,468	78,396	-	-	78,468	78,396
Code Enforcement	56,287	54,317	-	-	56,287	54,317
Economic Development	154,091	156,984	-	-	154,091	156,984
Interest on Long-Term Debt	129,460	136,376	-	-	129,460	136,376
Water and Sewer	-	-	879,113	847,919	879,113	847,919
Airport	31,131	100,929	-	-	31,131	100,929
Total Expenses	3,323,075	3,609,145	879,113	847,919	4,202,188	4,457,064
Increases in Net Position						
Before Transfers	(290,247)	(404,997)	558,871	526,937	268,624	121,940
Transfers	544,090	549,475	(544,090)	(549,475)	-	-
Increases in Net Position	253,843	144,478	14,781	(22,538)	268,624	121,940
Net Position- October 1	4,351,663	4,207,185	4,204,876	4,227,414	8,556,539	8,434,599
Change in Accounting Principle	(606,299)	-	(162,544)	-	-	-
Net Position- September 30	3,999,207	4,351,663	4,057,113	4,204,876	8,825,163	8,556,539

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds- The focus of the City of Muleshoe's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as useful measure of 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 Muleshoe's governmental funds reported combined ending fund balances of \$2,866,921. Approximately \$1,405,227 constitutes unassigned fund balance and \$91,225 is assigned for capital expenditures for equipment. The remaining is either nonspendable or restricted.

In the general fund, the City budgeted for an increase in the fund balance on a budgeted basis of \$65,266. However due to expenditures being less than expected and revenue being more than expected the actual fund balance increased \$157,766 for the fiscal year 2015.

Enterprise Funds- The City's enterprise fund statements provide the same type of information found in the governmental-wide financial statements, but in more detail. Unrestricted net position of the respective enterprise fund or Water and Sewer Fund was \$951,393.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2015

General Fund Budgetary Highlights

Over the course of the year, the City did not revise its budget. Actual expenditures were \$56,289 below the final budget amounts and resources available were \$56,396 above the final budgeted amount. The largest differences result from taxes and charges for services being less than expected and intergovernmental revenue being more as result of a police grant in the amount of \$51,288.

CAPITAL ASSETS

At the end of 2014, the City had invested \$16,789,048 in a broad range of capital assets, including land, equipment, buildings, and vehicles.

CITY OF MULESHOE'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 612,284	\$ 612,284	\$ 833,127	\$ 833,127	\$ 1,445,411	\$ 1,445,411
Construction in progress	18,835.00	-	-	-	18,835.00	-
Buildings and improvements	3,690,807	3,572,048	98,023	98,023	3,788,830	3,670,071
Machinery and equipment	3,580,119	3,490,679	644,711	589,869	4,224,830	4,080,548
Water and sewer system	-	-	5,156,673	5,128,268	5,156,673	5,128,268
Airport improvements	1,879,687	1,879,687	-	-	1,879,687	1,879,687
Infrastructure	274,782	274,782	-	-	274,782	274,782
Totals at historical cost	10,056,514	9,829,480	6,732,534	6,649,287	16,789,048	16,478,767
Total accumulated depreciation	(5,223,319)	(4,868,621)	(3,626,812)	(3,482,374)	(8,850,131)	(8,350,995)
Net capital assets	\$4,833,195	\$4,960,859	\$3,105,722	\$3,166,913	\$ 7,938,917	\$ 8,127,772

More detailed information about the City's capital assets is presented in the notes to the financial statements.

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2015

DEBT ADMINISTRATION

At year-end, the City had \$ 3,261,564 in outstanding capital leases, notes, net pension liability and landfill closure cost. More detailed information about the City's debt is presented in the notes to the financial statements.

CITY OF MULESHOE'S LONG TERM DEBT

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Notes Payable	42,000	15,000	-	-	42,000	15,000
Certificates of obligation	3,025,000	3,200,000	-	-	3,025,000	3,200,000
Landfill closure cost	194,564	175,824	-	-	194,564	175,824
Net pension liability	703,730	-	188,664	-	892,394	-
Total notes payable	<u>3,965,294</u>	<u>3,390,824</u>	<u>188,664</u>	<u>-</u>	<u>3,261,564</u>	<u>3,390,824</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2015 tax base increased 2.13% from last year. The City Council adopted the effective tax rate of \$0.6538 per \$100 evaluation to fund the Maintenance and Operation needs of the city. This tax rate is \$0.008 (1.21%) lower than last year's tax rate.

Employee salaries were increased 4.2% in the FY2015-2016 Budget. The salary increases were a combination of cost of living adjustments and merit increases and were made possible because of efficiencies within each department. Salary adjustments were not dependent on any increase in revenues i.e. tax rate, sales taxes, fees for service, etc.

Medical insurance costs increased 11.6% for FY2015-2016. Increased costs for medical insurance are mainly driven by the Federal Affordable Care Act. The city offers a consumer driven insurance option to employees. This plan allows employees to choose from eight (8) medical plans that provide various deductibles, out-of-pocket expenses, and co-pays. The employee chooses the plan that best fits his/her situation.

Water/Wastewater rates are unchanged for the FY2015-2016 Budget and revenues are projected to decrease 1.24% due to decreased water sales. Capital improvement projects for the Water/Wastewater Department include computer equipment, water mains and taps, meters and settings, water well, sewer line camera, and service truck in the amount of \$116,000.

Capital improvement funds allocated in the General Fund Include: Administration

Computer equipment and lease purchase debt - \$3,100.

Police Department

Equipment, radios, computer equipment, crime scene equipment, bullet proof vests, and lease purchase debt - \$32,500.

Fire Department

Grass fire truck, building improvements, and radios - \$49,000 Parks Department
Playground equipment, walking trail, and irrigation system - \$38,000 Library
Building improvements, computer equipment, books and media - \$28,000 Municipal Court
Computer equipment, technology fund expenses - \$3,700

Airport

Runway and Taxiway rebuild - \$285,000 (\$2,850,000 project funded 90% by TxDOT)

CITY OF MULESHOE, TEXAS

Management's Discussion and Analysis
For Year Ended September 30, 2015

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager.

Basic Financial Statements

CITY OF MULESHOE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Cash and cash equivalents</i>	\$ 2,491,838	\$ 1,048,003	\$ 3,539,841
Receivables (net of allowances for uncollectibles):			
<i>Property Taxes- Delinquent</i>	126,867	--	126,867
<i>Accounts</i>	159,148	143,674	302,822
<i>Paving Liens</i>	21,775	--	21,775
<i>Notes Receivable</i>	314,340	--	314,340
<i>Due from Other Governments</i>	8,797	--	8,797
<i>Discount on issuance of debt</i>	9,884	--	9,884
Restricted assets:			
<i>Cash and cash equivalents</i>			
<i>Customer Meter Deposits</i>	--	73,680	73,680
<i>Capital Assets</i>			
Land	612,284	833,127	1,445,411
Buildings and Improvements	3,690,808	98,023	3,788,831
Machinery and Equipment	3,580,118	644,711	4,224,829
Water and Sewer System	--	5,156,673	5,156,673
Airport Improvements	1,879,687	--	1,879,687
Infrastructure	274,782	--	274,782
Less Accumulated Depreciation	(5,223,317)	(3,626,814)	(8,850,131)
Construction in Progress	18,835	--	18,835
Total Assets	<u>7,965,846</u>	<u>4,371,077</u>	<u>12,336,923</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows Related to Pensions	186,485	49,995	236,480
Total Deferred Outflows of Resources	<u>186,485</u>	<u>49,995</u>	<u>236,480</u>
LIABILITIES			
<i>Accounts payable</i>	111,375	85,605	196,980
<i>Accrued wages</i>	17,602	4,825	22,427
<i>Payable from Restricted Assets:</i>			
<i>Customer Deposits</i>	--	73,680	73,680
<i>Accrued Interest Payable</i>	17,133	--	17,133
<i>Noncurrent Liabilities:</i>			
<i>Due within one year</i>	222,000	--	222,000
<i>Due in more than year</i>	3,039,564	--	3,039,564
<i>Net Pension Liability</i>	703,731	188,664	892,395
Total Liabilities	<u>4,111,405</u>	<u>352,774</u>	<u>4,464,179</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflow Related to Pension	41,719	11,185	52,904
Total Deferred Inflows of Resources	<u>41,719</u>	<u>11,185</u>	<u>52,904</u>
NET POSITION:			
Net Investment in Capital Assets	1,776,081	3,105,720	4,881,801
Restricted For:			
Debt Service	113,491	--	113,491
Street Maintenance	18,499	--	18,499
Drug Seizure Proceeds	1,373	--	1,373
Economic Development	1,084,236	--	1,084,236
Hotel/Motel Occupancy Tax	131,095	--	131,095
Unrestricted	874,432	951,393	1,825,825
Total Net Position	<u>\$ 3,999,207</u>	<u>\$ 4,057,113</u>	<u>\$ 8,056,320</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 387,171	\$ 50,856	\$ --	\$ --
Police	868,590	--	206	51,288
Fire	116,322	--	3,252	--
Streets	473,369	2,764	--	--
Maintenance Equipment	67,683	--	--	--
Sanitation	496,310	780,478	--	--
Health and Welfare	645	--	--	--
Parks	66,422	2,757	--	--
Swimming Pool	154,440	47,041	--	--
Library	191,735	3,077	--	--
Municipal Court	50,951	62,463	--	--
Golf Course	78,468	15,600	--	--
Code Enforcement	56,287	--	--	--
Economic Development and Assistance	154,091	400	--	--
Airport	31,131	16,589	--	--
Interest on Long-Term Debt	129,460	--	--	--
Total Governmental Activities	<u>3,323,075</u>	<u>982,025</u>	<u>3,458</u>	<u>51,288</u>
Business-type Activities:				
Water and Sewer	879,113	1,434,906	--	--
Total Business-type Activities	<u>879,113</u>	<u>1,434,906</u>	<u>--</u>	<u>--</u>
Total Primary Government	<u>\$ 4,202,188</u>	<u>\$ 2,416,931</u>	<u>\$ 3,458</u>	<u>\$ 51,288</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Occupancy
Unrestricted Investment Earnings
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Change in Accounting Principle (Note Q)
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (336,315)		\$ (336,315)
(817,096)		(817,096)
(113,070)		(113,070)
(470,605)		(470,605)
(67,683)		(67,683)
284,168		284,168
(645)		(645)
(63,665)		(63,665)
(107,399)		(107,399)
(188,658)		(188,658)
11,512		11,512
(62,868)		(62,868)
(56,287)		(56,287)
(153,691)		(153,691)
(14,542)		(14,542)
(129,460)		(129,460)
<u>(2,286,304)</u>		<u>(2,286,304)</u>
	\$ 555,793	555,793
	<u>555,793</u>	<u>555,793</u>
<u>(2,286,304)</u>	<u>555,793</u>	<u>(1,730,511)</u>
979,143	--	979,143
650,934	--	650,934
288,762	--	288,762
59,491	--	59,491
17,727	3,078	20,805
544,090	(544,090)	--
<u>2,540,147</u>	<u>(541,012)</u>	<u>1,999,135</u>
253,843	14,781	268,624
4,351,663	4,204,876	8,556,539
(606,299)	(162,544)	(768,843)
<u>\$ 3,999,207</u>	<u>\$ 4,057,113</u>	<u>\$ 8,056,320</u>

CITY OF MULESHOE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 1,465,480	\$ 772,038	\$ 254,320	\$ 2,491,838
Receivables (net of allowances for uncollectibles):				
<i>Property Taxes- Delinquent</i>	113,522	--	13,346	126,868
<i>Accounts</i>	152,568	--	6,580	159,148
<i>Paving Liens</i>	21,775	--	--	21,775
<i>Notes Receivable</i>	--	314,340	--	314,340
<i>Due from other funds</i>	--	--	2,544	2,544
<i>Due from Other Governments</i>	7,783	--	1,014	8,797
Total Assets	<u>1,761,128</u>	<u>1,086,378</u>	<u>277,804</u>	<u>3,125,310</u>
LIABILITIES				
<i>Accounts payable</i>	\$ 109,928	\$ 1,447	\$ --	\$ 111,375
<i>Accrued wages</i>	16,907	695	--	17,602
<i>Due to other funds</i>	2,544	--	--	2,544
Total Liabilities	<u>129,379</u>	<u>2,142</u>	<u>--</u>	<u>131,521</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue- Property Taxes	113,522	--	13,346	126,868
Total Deferred Inflows of Resources	<u>113,522</u>	<u>--</u>	<u>13,346</u>	<u>126,868</u>
FUND BALANCES				
Nonspendable Fund Balances				
Paving liens	21,775	--	--	21,775
Restricted Fund Balances				
Retirement of Long-Term debt	--	--	113,491	113,491
Economic Development	--	1,084,236	--	1,084,236
Hotel/Motel Occupancy Tax	--	--	131,095	131,095
Drug Seizure Proceeds	--	--	1,373	1,373
Street Maintenance	--	--	18,499	18,499
Assigned Fund Balances				
Capital Expenditures for Equipment	91,225	--	--	91,225
Unassigned	1,405,227	--	--	1,405,227
Total Fund Balance	<u>1,518,227</u>	<u>1,084,236</u>	<u>264,458</u>	<u>2,866,921</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 1,761,128</u>	<u>\$ 1,086,378</u>	<u>\$ 277,804</u>	<u>\$ 3,125,310</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

Total fund balances - governmental funds balance sheet	\$ 2,866,921
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	4,833,197
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	126,868
Unamortized discount on issuance of debt recorded in governmental activities are not reported in the funds.	9,884
Payables for bond principal which are not due in the current period are not reported in the funds.	(3,025,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(17,133)
Payables for notes which are not due in the current period are not reported in the funds.	(42,000)
Landfill Closure liabilities which are not due and payable in the current period are not reported in the funds.	(194,564)
Recognition of the City's proportionate share of the net pension liability is not reported in the funds.	(703,731)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(41,719)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>186,485</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 3,999,207</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Economic Development	Other Governmental Funds	Total Governmental Funds
Revenue:				
<i>Property Taxes</i>	\$ 859,249	\$ --	\$ 114,860	\$ 974,109
<i>Sales Taxes</i>	434,374	108,280	108,280	650,934
<i>Franchise Taxes</i>	288,762	--	--	288,762
<i>Occupancy Taxes</i>	--	--	59,491	59,491
<i>Licenses and permits</i>	11,033	--	--	11,033
<i>Intergovernmental</i>	54,540	--	--	54,540
<i>Charges for services</i>	849,669	--	--	849,669
<i>Fines</i>	62,577	--	206	62,783
<i>Interest</i>	3,637	13,257	833	17,727
<i>Miscellaneous</i>	58,346	400	--	58,746
Total revenues	<u>2,622,187</u>	<u>121,937</u>	<u>283,670</u>	<u>3,027,794</u>
Expenditures:				
Current:				
<i>General government</i>	376,540	--	--	376,540
<i>Police</i>	825,346	--	--	825,346
<i>Fire</i>	67,952	--	--	67,952
<i>Streets</i>	339,694	--	98,750	438,444
<i>Maintenance Equipment</i>	69,129	--	--	69,129
<i>Sanitation</i>	425,874	--	--	425,874
<i>Parks</i>	45,425	--	--	45,425
<i>Swimming Pool</i>	76,478	--	--	76,478
<i>Library</i>	192,202	--	--	192,202
<i>Municipal Court</i>	52,359	--	--	52,359
<i>Golf Course</i>	73,182	--	--	73,182
<i>Code Enforcement</i>	57,681	--	--	57,681
<i>Economic development and assistance</i>	--	112,142	39,314	151,456
<i>Airport</i>	14,444	--	--	14,444
<i>Capital outlay</i>	279,737	--	--	279,737
Debt service:				
<i>Principal</i>	15,000	--	175,000	190,000
<i>Interest and fiscal charges</i>	771	--	127,213	127,984
<i>Debt issuance cost and fees</i>	--	--	750	750
Total expenditures	<u>2,911,814</u>	<u>112,142</u>	<u>441,027</u>	<u>3,464,983</u>
Excess (deficiency) of revenues (under) expenditures	(289,627)	9,795	(157,357)	(437,189)
Other financing sources (uses):				
<i>Operating transfers in</i>	353,690	--	190,400	544,090
<i>Insurance Proceeds</i>	51,703	--	--	51,703
<i>Note Payable Proceeds</i>	42,000	--	--	42,000
Total other financing sources (uses)	<u>447,393</u>	<u>--</u>	<u>190,400</u>	<u>637,793</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	157,766	9,795	33,043	200,604
Fund balances October 1	1,360,461	1,074,441	231,415	2,666,317
Fund balances September 30	<u>\$ 1,518,227</u>	<u>\$ 1,084,236</u>	<u>\$ 264,458</u>	<u>\$ 2,866,921</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015*

Net change in fund balances - total governmental funds	\$ 200,604
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	279,736
The depreciation of capital assets used in governmental activities is not reported in the funds.	(374,461)
The gain or loss on capital assets decrease depreciation is not reported in the funds.	18,764
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(51,703)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	5,034
Landfill Closure not requiring the use of current financial resources are not reported as expenditures in the fund	(18,740)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	175,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	15,000
Bond discount costs and similar items are amortized in the SOA but not in the funds.	(796)
(Increase) decrease in accrued interest from beginning of period to end of period.	70
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	(42,000)
Changes in Pension contributions made after the measurement date but in current FY were de-expended.	(5,581)
The City's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	13,040
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>39,874</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 253,843</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS

STATEMENT OF NET POSITION

ENTERPRISE FUND

SEPTEMBER 30, 2015

	Enterprise Fund <u>Water and Sewer Fund</u>
ASSET	
Current Assets:	
<i>Cash and cash equivalents</i>	\$ 1,048,003
Receivables (net of allowances for uncollectibles):	
<i>Accounts</i>	143,674
<i>Total Current Assets</i>	<u>1,191,677</u>
Non-Current Assets:	
Restricted assets:	
<i>Cash and cash equivalents</i>	
<i>Customer Meter Deposits</i>	73,680
Capital assets	
Land	833,127
Buildings and Improvements	98,023
Machinery and Equipment	644,711
Water and Sewer System	5,156,673
Less Accumulated Depreciation	(3,626,814)
Total Non-Current Assets	<u>3,179,400</u>
Total Assets	<u>4,371,077</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	49,995
Total Deferred Outflows of Resources	<u>\$ 49,995</u>
LIABILITIES	
Current Liabilities:	
<i>Accounts payable</i>	\$ 85,605
<i>Accrued wages</i>	4,825
<i>Total Current Liabilities</i>	<u>90,430</u>
Payable from Restricted Assets:	
<i>Customer Deposits</i>	<u>73,680</u>
Noncurrent Liabilities	
<i>Net Pension Liability</i>	<u>188,664</u>
<i>Total Noncurrent Liabilities</i>	<u>188,664</u>
Total Liabilities	<u>352,774</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pensions	11,185
Total Deferred Inflows of Resources	<u>11,185</u>
NET POSITION	
<i>Investment in capital assets</i>	3,105,721
<i>Unrestricted</i>	951,392
Total Net Position	<u>\$ 4,057,113</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Enterprise Fund <u>Water and Sewer Fund</u>
OPERATING REVENUES:	
<i>Charges for services</i>	\$ 1,340,578
<i>Rents</i>	70,954
<i>Miscellaneous</i>	23,374
Total Operating Revenues	<u>1,434,906</u>
OPERATING EXPENSES:	
<i>Personnel services</i>	383,737
<i>Supplies</i>	46,523
<i>Maintenance</i>	105,930
<i>Other charges</i>	198,486
<i>Depreciation</i>	144,437
Total Operating Expenses	<u>879,113</u>
Operating Income (Loss)	555,793
NON-OPERATING REVENUES (EXPENSES):	
<i>Interest revenue</i>	<u>3,078</u>
Total Non-operating Revenues (Expenses)	3,078
Net Income (Loss) before Transfers	<u>558,871</u>
<i>Interfund operating transfers out</i>	(544,090)
Change in net position	<u>14,781</u>
Net Position at October 1,	4,204,876
Prior Period Adjustment Note Q)	(162,544)
Net Position at September 30,	<u>\$ 4,057,113</u>

CITY OF MULESHOE, TEXAS
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Enterprise Fund <u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,451,319
Cash Payments to Employees for Services	(378,912)
Cash Payments to Other Suppliers for Goods and Services	(350,524)
Net Cash Provided (Used) by Operating Activities	<u>721,883</u>
Cash Flows from Non-capital Financing Activities:	
Operating Transfers From (To) Other Funds	(544,090)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(544,090)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition or Construction of Capital Assets	(83,247)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(83,247)</u>
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	3,078
Net Cash Provided (Used) for Investing Activities	<u>3,078</u>
Net Increase (Decrease) in Cash and Cash Equivalents	97,624
Cash and Cash Equivalents at Beginning of Year	1,024,059
Cash and Cash Equivalents at End of Year	<u>\$ 1,121,683</u>
Classified As:	
Current Assets	\$ 1,048,003
Restricted Assets	73,680
Totals	<u>\$ 1,121,683</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 555,793
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	144,437
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(16,413)
Decrease (Increase) in Deferred Outflows of Resources	(13,182)
Increase (Decrease) in Accounts Payable	45,248
Increase (Decrease) in Customer Deposits	5,505
Increase (Decrease) in Net Pension Liability	(10,690)
Increase (Decrease) in Deferred Inflow of Resources	11,185
Total Adjustments	<u>166,090</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 721,883</u>

The accompanying notes are an integral part of this statement.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

A. Summary of Significant Accounting Policies

The City of Muleshoe was incorporated on January 1, 1926, and adopted the Home Rule Charter in accordance with the statutes of the State of Texas on July 3, 1960. The City of Muleshoe, hereinafter called the City, operates under a Council-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, public improvements, planning, and general administrative services.

The basic financial statements of City Of Muleshoe, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. ("GAAP") promulgated by the Governmental Accounting Standards No, 69 of the American Institute of Certified Public Accountants.

The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City. The City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units." The city receives support from various originizations; however, none of these organizations meet the criteria specified by GASB Statement No. 39 to be included in the City's financial statements.

In conformity with generally accepted accounting principles, the following financial statements of component units have been included in the City's financial statements as blended component units.

They are:

<u>Name of Component Unit</u>	<u>Brief Description of Activities and Relationship to City</u>	<u>Reporting Funds</u>
Muleshoe Economic Development Corporation	Promote, Assist and Enhance Economic Development in the City. Governed by a five member board of directors appointed by the Mayor and City Council.	Special Revenue Fund

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

All budgets, programs and policies must be submitted to the City Council for approval.

Joint Ventures

The City of Muleshoe has the following joint ventures at September 30, 2015. The City of Muleshoe is in conjunction with the County of Bailey, Texas, Muleshoe Independent School District, Muleshoe Area Hospital District and High Plains Underground Water Conservation District No. 1 to create Bailey Central Appraisal District pursuant to the laws of the State of Texas, for the appraisal and collection of property taxes. Bailey Central Appraisal District is governed by a five-member board composed of three appointees by Muleshoe School District and one by the County of Bailey, Texas, and the City of Muleshoe. Each taxing entity is liable for its share of the cost of operating Bailey Central Appraisal District. In accordance with the agreement with each taxing entities, excess funds will be paid annually at the discretion of Bailey Central Appraisal District. All known costs and refunds have been shown in current financial statements. Complete financial statements for Bailey Central Appraisal District can be obtained from Bailey Central Appraisal District, 302 Main, Muleshoe, Texas.

Related Organization

The following organization was excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the respective organization.

Related Organizations

Brief Description of Activities and
Relationship to the City

Housing Authority of Muleshoe

Administer Federal funding and/or other financing for improvement of housing conditions in the City. The five citizens who serve as the Governing Board are appointed by the Mayor and approved by the City Council. The City has no significant influence over the management, budget, or policies of the Housing Authority of Muleshoe. The Authority reports independently.

Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services

CITY OF MULESHOE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Enterprise fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Economic Development. This fund accounts for sale tax revenue used for economic development.

The City reports the following major enterprise funds:

Water and Sewer Fund. This fund accounts for the operation of the City's water and sewer utility. Activities of this fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. All cost are through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

In addition, the City reports the following fund types:

Governmental Funds:

Special Revenue Funds: The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund.

Debt Service Fund: The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

b. **Measurement Focus, Basis of Accounting**

Government-wide and Enterprise Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and enterprise fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, are deferred and amortized over the life of the bonds.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Bond premiums and discounts, as well as bond issuance cost are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premium received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's equity in the pooled cash accounts are available upon demand and are considered to "cash equivalents" when preparing these financial statements.

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. The City has contract with Bailey Central Appraisal District for the collection of property taxes.

The City is permitted by the State of Texas to levy taxes up to \$2.50 per \$100 of assessed valuation. Within this \$2.50 maximum, there is no legal limit upon the amount of taxes which may be levied for the debt service. The tax rate to finance general government service for the year ended September 30, 2015 was \$0.6618 per \$100 which means that the City has a tax margin of \$1.8382 per \$100 and could raise up to \$2,362,406 additional a year from the present assessed valuation of \$128,517,379 before the limit is reached.

Allowances for uncollectible are based upon historical experience in collecting property taxes. In accordance with Texas Property Tax Code Sec. 33.05 Limitation on Collection of Taxes:

Personal property may not be seized and a suit may not be filed:

- To collect a tax on personal property that has been delinquent more than four years; or
- To collect a tax on real property that has been delinquent more than 20 years.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

- * A tax delinquent for more than the limitation period prescribed by this section and any penalty and interest on the tax is presumed paid unless a suit to collect the tax is pending.
- * The collector for a taxing unit shall cancel and remove from the delinquent tax roll tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years if there is no pending litigation concerning the delinquent taxes at the time of the cancellation and removal.

Allowances for uncollectible tax receivables within the General Fund General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories

Supply inventories are recorded by the purchase method. Under the purchase method inventory items are expensed at the time a liability is created. Because the City had an insignificant amount of inventory at year end, no amounts have been shown on the financial statement.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

The City (defined as a phase 3 government in GASB Statement No. 34 "Basic Financial Stemants-Management's Discussion and Analysis- for State and Local Government") has elected not to retroactively rereport general infrastructure assets, therefore general infrastructure assets acquired or constructed prior to July 1, 2003 are not reported in the financial statements.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment	3-5
Computer Equipment	3-5

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

f. Unpaid Vacation and Sick Pay

The City does not have an obligation to pay unpaid sick pay on termination of an employee and unpaid vacation does not accumulate from year to year. Therefore, such amounts are not accrued by the City

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Budgets and Budgetary Accounting

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

1. Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 15, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Total expenditures may not exceed total appropriation for any budgeted fund without amending the budget.
5. GASB Statement No. 34 Requires that budgetary comparison statements for the General Fund and major special funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).
6. Budgets for the General and Economic Development Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end.

Budgeted amount are as originally adopted, or as amended by the City Council throughout the year. Individual amendments were not material in relation to the original appropriations which were amended.

j. Restricted Assets

These assets consist of cash restricted for customer meter deposits.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

k. Fund Equity

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation. Debt services resources are to be used for future servicing of the Certificates of Obligations and are structured through debt covenants. Taxes collected for Economic Development, Hotel/Motel Occupancy, and Street Maintenance, and proceeds received in Drug Seizures are restricted by enable legislation that requires the revenue to be used for specific purposes.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position on the Government-wide Statement:

In the government-wide statements, net position are reported in the three components- invested in capital assets net of related debt, restricted, and unrestricted. Invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or notes issued to acquire, construct or improve those assets. Restricted net position are reported when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or by enabling legislation. Unrestricted net position that do not meet the definition of either of the first categories of net position.

4. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

5. New Accounting Standards Adopted

In fiscal year 2015, the City adopted five new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27ea*
- Statement No. 69, *Government Combinations and Disposals of Governmental Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.*

- a. Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:
- 1) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
 - 2) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
 - 3) Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The adoption of Statement No. 67 has no impact on the City's financial statements.

- b. Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the City's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the City's beginning net position for the fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liability and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement.

- c. Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operation. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 69.

- d. Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 70.

- e. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the City's final year-end, the effects from the City's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2015, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,538,840 and the bank balance was \$3,666,995. The City's cash deposits at September 30, 2015 and during the year ended September 30, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, 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.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

b. Custodial Credit Risk

Custodial credit risk for investment is the risk that in the event for the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of outer parties. The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The City's cash deposits at September 30, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. Since the City's deposits are covered by depository insurance and pledged securities, it has no custodial credit risk for deposits.

c. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investment in any one issuer (other than U.S. Treasury Securities, Mutual Funds, and External Investment Pools) That represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2015, all of the City's investment are in the bank investments completely covered by pedged securities, or an external investment pool.

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 612,284	\$ --	\$ --	\$ 612,284
Construction in progress	--	18,835	--	18,835
Total capital assets not being depreciated	<u>612,284</u>	<u>18,835</u>	<u>--</u>	<u>631,119</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	3,572,048	118,759	--	3,690,807
Machinery and Equipment	3,490,679	142,143	(52,703)	3,580,119
Infrastructure	274,782	--	--	274,782
Airport Improvements	1,879,687	--	--	1,879,687
Total capital assets being depreciated	<u>9,217,196</u>	<u>260,902</u>	<u>(52,703)</u>	<u>9,425,396</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,027,438)	(119,320)	--	(1,146,758)
Machinery and Equipment	(2,136,131)	(235,784)	19,764	(2,352,152)
Infrastructure	(10,991)	(5,496)	--	(16,487)
Airport Improvements	(1,694,062)	(13,861)	--	(1,707,923)
Total accumulated depreciation	<u>(4,868,622)</u>	<u>(374,461)</u>	<u>19,764</u>	<u>(5,223,319)</u>
Total capital assets being depreciated, net	<u>4,348,574</u>	<u>(113,558)</u>	<u>(32,939)</u>	<u>4,202,076</u>
Governmental activities capital assets, net	<u>\$ 4,960,858</u>	<u>\$ (94,723)</u>	<u>\$ (32,939)</u>	<u>\$ 4,833,195</u>

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 833,127	\$ --	\$ --	\$ 833,127
Total capital assets not being depreciated	<u>833,127</u>	<u>--</u>	<u>--</u>	<u>833,127</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	98,023	--		98,023
Machinery and Equipment	589,869	54,842	--	644,711
Water and Sewer System	5,128,268	28,405	--	5,156,673
Total capital assets being depreciated	<u>5,816,160</u>	<u>83,247</u>	<u>--</u>	<u>5,899,407</u>
Less accumulated depreciation for:				
Buildings and improvements	(95,029)	(1,812)	--	(96,841)
Machinery and Equipment	(476,534)	(27,249)	--	(503,783)
Water and Sewer System	(2,910,812)	(115,376)	--	(3,026,188)
Total accumulated depreciation	<u>(3,482,375)</u>	<u>(144,437)</u>	<u>--</u>	<u>(3,626,812)</u>
Total capital assets being depreciated, net	<u>2,333,785</u>	<u>(61,191)</u>	<u>--</u>	<u>2,272,594</u>
Business-type activities capital assets, net	<u>\$ 3,166,912</u>	<u>\$ (61,191)</u>	<u>\$ --</u>	<u>\$ 3,105,721</u>

Depreciation was charged to Governmental Activities functions as follows:

General Government	\$ 17,842
Police	64,396
Fire	67,133
Streets	40,277
Sanitation	54,804
Health and Welfare	645
Parks	20,997
Swimming Pool	77,962
Library	3,960
Golf Course	5,286
Airport	16,687
Economic Development and Assistance	4,472
	<u>\$ 374,461</u>

Depreciation was charged to Business-type Activities functions as follows:

Water and Sewer	<u>\$ 144,437</u>
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E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2015, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Debt Service Fund	General Fund	\$ 2,544	Reimbursement of Taxes
	Total	<u>\$ 2,544</u>	

All amounts due are scheduled to be repaid within one year.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2015, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Water and Sewer Fund	General fund	\$ 353,690	Supplement other funds sources
Water and Sewer Fund	Debt Service Fund	190,400	Payment of Debt
	Total	<u>\$ 544,090</u>	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2015, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
Certificates of Obligation	\$ 3,200,000	\$ --	\$ 175,000	\$ 3,025,000	180,000
Notes Payable	15,000	42,000	15,000	42,000	42,000
Net Pension Liability *		703,730		703,730	
Estimated Liability for Landfill Closure Cost*	175,824	18,740	--	194,564	--
Total governmental activities	<u>\$ 3,390,824</u>	<u>\$ 764,470</u>	<u>\$ 190,000</u>	<u>\$ 3,965,294</u>	<u>\$ 222,000</u>
<u>Business-type activities:</u>					
Net Pension Liability *	--	188,664	--	188,664	--
Total business-type activities	<u>\$ --</u>	<u>\$ 188,664</u>	<u>\$ --</u>	<u>\$ 188,664</u>	<u>\$ --</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Net Pension Liability *	Governmental	General
Estimated Liability for Landfill Closure Cost	Governmental	General
Net Pension Liability *	Business-type	Water and Sewer

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2015, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 222,000	\$ 122,213	\$ 344,213
2017	190,000	112,713	302,713
2018	195,000	105,013	300,013
2019	205,000	97,013	302,013
2020	210,000	88,713	298,713
2021-2025	1,200,000	305,181	1,505,181
2026-2030	845,000	54,763	899,763
Totals	<u>\$ 3,067,000</u>	<u>\$ 885,607</u>	<u>\$ 3,952,607</u>

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Certificates of Obligation

\$4,000,000 City of Muleshoe, Texas Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2007 original issued December 1, 2007. The Certificates are issued as serial certificates maturing February 15 in the years 2011 through 2020 and as Term Bonds maturing February in the years 2010, 2022, 2024, 2026, and 2028. Interest is payable each August 15 and February 15 thereafter until maturity or prior redemption at rates of 3.30% to 4.25%.

The Certificates of Obligation are secure by a continuing direct annual ad valorem tax on all taxable property within the city sufficient to provide for the payment of principal of and interest on the obligations payable. Additionally, the Certificates are payable from and secured by a limited pledge of \$1,000 of net revenues of the City's Waterwork and Sewer System, as provided in the Ordinance authorizing the Certificates.

Debt Service requirements are as follows:

<u>Year Ending September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 180,000	120,113	\$ 300,113
2017	190,000	112,713	302,713
2018	195,000	105,013	300,013
2019	205,000	97,013	302,013
2020	210,000	88,713	298,713
2021-2025	1,200,000	305,181	1,505,181
2026-2030	845,000	54,763	899,763
Totals	\$ <u>3,025,000</u>	\$ <u>883,507</u>	\$ <u>3,908,507</u>

Notes Payable

The City has a note payable to Muleshoe State Bank for a Fire Truck purchase December 22, 2014, in amount of \$42,000. This note is to be paid in one annual payment of \$42,000 at an interest rate of 5. percent The following is a schedule of liability to maturity: This is an unsecured loan. This loan is record in the Business-type Activities.

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ <u>42,000</u>	<u>2,100</u>	\$ <u>44,100</u>

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of September 30, 2015, as follows:

<u>Year Ending September 30.</u>	
2016	\$ <u>3,354</u>
Total Minimum Rentals	\$ <u>3,354</u>
Rental Expenditures in 2015	\$ <u>6,708</u>

H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Pension Plan

1. 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.tmrs.com.

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

2. Benefits Provided

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

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

Employees covered by benefit terms:

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	19
Inactive employees entitled to but not yet receiving benefits	22
Active employees	33
Total covered employees	74

3. 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 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 18.15% and 16.91% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$222,738, and were equal to the required contributions.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

4. 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.

Actuarial assumptions:

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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	100.0%	

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Discount Rate

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 benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability	Increase (Decrease)		
	\$ Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	\$ 7,727,697	\$ 6,784,738	\$ 942,959
Changes for the year			
Service cost	184,619	--	184,619
Interest	538,551	--	538,551
Change of benefit terms	--	--	--
Difference between expected and actual experience	(74,027)	--	(74,027)
Changes of assumptions	--	--	--
Contributions - employer	--	227,385	(227,385)
Contributions - employee	--	88,576	(88,576)
Net investment income	--	388,131	(388,131)
Benefit payments, including refunds of employee contributions	(252,849)	(252,849)	--
Administrative expense	--	(4,052)	4,052
Other changes	--	(333)	333
Net changes	\$ 396,294	\$ 446,858	\$ (50,564)
Balance at 12/31/2014	\$ 8,123,991	\$ 7,231,596	\$ 892,395

Sensitivity of the net pension liability to changes in the discount rate

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	Discount Rate	1% Increase in Discount Rate
City's net pension liability	\$ 2,036,783	\$ 892,395	\$ (45,648)

Pension Plan Fiduciary Net Position

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.

5. 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 \$160,284.

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

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ --	\$ 52,904
Changes in actuarial assumptions	\$ --	\$ --
Difference between projected and actual investment earnings	\$ 69,441	\$ --
Contributions subsequent to the measurement date	\$ <u>167,039</u>	\$ <u> </u>
Total	\$ <u><u>236,480</u></u>	\$ <u><u>52,904</u></u>

\$236,480 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, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:	
2016	\$ (3,763)
2017	\$ (3,763)
2018	\$ 6,702
2019	\$ 17,361
2020	\$ --
Thereafter	\$ --

J. Health Care Coverage

During the year ended September 30, 2015, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$590 per month per employee and dependents to the Plan. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

Latest financial statements for the Pool are available for the year ended , have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

The City is contingently liable in respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney, such matters will not have a materially adverse effect on the City's financial position at September 30, 2014.

The City has been the recipient of numerous grants-in-aid, for which it is required to comply with specific terms and agreements as well as applicable Federal and State laws and regulations. In the opinion of management, the City has complied with all requirements. However, in the event of audit by grantor agencies and disallowance of any claimed expenditures, the resulting liability would be payable by the General Fund or other funds of the City.

L. Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. In addition to operating expense related to current activities of the landfill, a related liability will be recognized in the General Long-Term Debt Account based on the future closure and postclosure care costs that will be incurred near or after the date that the landfill no longer accepts waste. The recognition of these landfill closure and post closure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care cost has a balance of \$194,564 as of September 30, 2015, which is based on 35.57% usage (filled) of the landfill. It is estimated that an additional \$352,475 will be recognized as closure and postclosure care expenses between the balance sheet and the date the landfill is expected to be filled to capacity. The estimated total current

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

cost of the landfill closure and postclosure care (\$590,447) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2015. However, the actual cost of closure and post closure cost may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The City is required by Texas Natural Resource Conversation Commission to satisfy certain requirements of financial assurance for closure and post closure cost by meeting certain financial test. In the opinion of City Management, all financial assurance requirements have been met at September 30, 2015.

The total amount of landfill closure and postclosure care cost for current period in the amount of \$18,740 (required by GASB 18) increase the amount of estimated liability for landfill closure and postclosure care cost as a Long-term Liability.

M. Notes Receivable

The Muleshoe Economic Development Corporation has loaned various individuals money for economic development purposes. These receivables are reflected in the State of Net Position and Balance Sheet as an assets.

N. Sanitation Disposal Contract

The City entered a contract beginning September 1, 2003 with South Plains Waste Service, Inc. of Olton, Texas for the removal and disposal of trash from the City. Rates are based on residential and commercial usage.

O. Volunteer Fire Department Pension Plan

The City Council on June 22, 1999 approved a pension plan for the Muleshoe Volunteer Fire Department with Texas Statewide Emergency Service Retirement Fund (SB411).

PLAN DESCRIPTION

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2014, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,073
Terminated Members Entitled to Benefits but Not Yet Receiving Them	2,161
Active Participants (Vested and Nonvested)	4,036

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children

FUNDING POLICY

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,530,343 for the fiscal year ending August 31, 2014.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection D below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$26,093,761.

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

ACTUARIAL ASSUMPTIONS

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities		
Large cap domestic	32%	5.2%
Small cap domestic	10	6
Developed internatio	21	6
Emerging markets	6	5
Master limited partne	5	7
Fixed income		
Domestic	21	1
International	5	2
Cash	--	--
Total	<u>100%</u>	

P. Defined Benefit Life Insurance Plan

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

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

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

CITY OF MULESHOE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Schedule of Contribution Rates:
 (RETIREE-ONLY PORTION OF THE RATE)

Plan/ Calendar Year	Annual Required Contribution (RATE)	Actual Contribution Made (RATE)	Percentage of ARC Contributed
2012	0.03%	0.03%	100.00%
2013	0.03%	0.03%	100.00%
2014	0.04%	0.04%	100.00%
2015	0.04%	0.04%	100.00%

Q. Prior Period Adjustment - Adoption of GASB Statement No. 68

The City recorded a net prior period adjustment of (\$768,843) to restate the beginning net pension liability of the TRS pension plan, in accordance with GASB Statement No 68. The restatement was required to record the beginning net pension liability (\$942,959) and contributions \$174,116 made after the measurement date and during the City's 2014 fiscal year.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



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November 10, 2016

**\$3,070,000 CITY OF MULESHOE, TEXAS
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION,
SERIES 2016**

WE HAVE represented the City of Muleshoe, Texas (the "City") as its bond counsel, in connection with an issue of certificates of obligation (the "Certificates") described as follows:

**CITY OF MULESHOE, TEXAS TAX AND WATERWORKS
AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2016, dated
October 1, 2016.**

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

WE HAVE represented the City as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and rendering an opinion with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein. We have also examined applicable provisions of the Internal Revenue Code of 1986 as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, which contains certified copies of certain proceedings of the City; customary certificates of officers, agents and representatives of the City and other public officials; and other certified showings relating to the

authorization and issuance of the Certificates. We have also examined executed Certificate No. T-1 of this issue. **BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:**

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore, the Certificates constitute valid and legally binding obligations of the City; and

(B) The Certificates are payable, both as to principal and interest, from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City and from a limited pledge of excess revenues of the revenues of the City's water and sewer system.

(C) Interest on the Bonds is excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of this opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings and court decisions; and

(D) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax liability

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

In providing such opinions, we have relied on legal opinions of the Attorney General of the State of Texas regarding the legality and validity of the Certificates under the Constitution and laws of the State of Texas and representations of the City and the Underwriter with respect to matters solely within the knowledge of the City and the Underwriter, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing covenants of the Ordinance, interest on the Certificates could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

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

Owners of the Certificates should be aware that the ownership of tax-exempt obligations

may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

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 City as the taxpayer. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.