

OFFICIAL STATEMENT
Dated June 7, 2016



RATING:
S&P: "AA-"
(See "OTHER INFORMATION – Ratings" herein.)

NEW ISSUE - Book-Entry-Only

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

\$19,485,000
CITY OF WESLACO, TEXAS
(A Home Rule Municipal Corporation of the State of Texas Located in Hidalgo County)
LIMITED TAX REFUNDING BONDS, SERIES 2016

Dated Date: June 15, 2016

Due: February 15, as shown on inside cover

PAYMENT TERMS . . . Interest on the \$19,485,000 City of Weslaco, Texas, Limited Tax Refunding Bonds, Series 2016 (the "Bonds"), will accrue from June 15, 2016 (the "Dated Date"), and will be payable August 15 and February 15 of each year commencing August 15, 2016, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS - Book-Entry-Only System".) The initial Paying Agent/Registrar is Amegy Bank, a division of ZB, National Association, Houston, Texas. (See "THE BONDS - Paying Agent/Registrar".)

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly, Chapter 1207, Texas Government Code, as amended, ("Chapter 1207") and the Weslaco Home Rule City Charter, and are direct obligations of the City of Weslaco, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds adopted on March 15, 2016 (the "Ordinance"). (See "THE BONDS - Authority for Issuance"). As permitted by Chapter 1207, the City Commission delegated to certain City officials the authority to execute a "Pricing Certificate" evidencing final sale terms of the Bonds. The Pricing Certificate was executed by a designated City official on June 7, 2016.

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund the City's currently outstanding indebtedness as disclosed in Schedule I hereto (the "Refunded Obligations") in order to lower the overall debt service requirements of the City, and (ii) pay the costs of issuance of the Bonds.

CUSIP PREFIX: 950868
MATURITY SCHEDULE, INTEREST RATES,
INITIAL PRICE OR YIELD, AND
NINE DIGIT CUSIP NUMBER
See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers and subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of Winstead PC, San Antonio, Texas, as Bond Counsel. (See APPENDIX C, "Form of Bond Counsel's Opinion.")

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on Thursday, June 30, 2016.

**MATURITY SCHEDULE, INTEREST RATES, INITIAL PRICE
OR YIELD, AND NINE DIGIT CUSIP NUMBER**

CUSIP Prefix: 950868⁽¹⁾

February 15	Principal	Interest	Initial Price or	Cusip	February 15	Principal	Interest	Initial Price or	Cusip
<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix⁽¹⁾</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix⁽¹⁾</u>
2018	\$ 265,000	2.000%	0.850%	PT0	2023	\$2,200,000	5.000%	1.580%	PY9
2019	560,000	5.000%	1.030%	PU7	2024	2,420,000	5.000%	1.720%	PZ6
2020	1,895,000	5.000%	1.170%	PV5	2025	2,555,000	5.000%	1.850%	QA0
2021	1,995,000	5.000%	1.320%	PW3	2026	2,690,000	5.000%	2.000%	QB8
2022	2,095,000	5.000%	1.450%	PX1	2027	2,810,000	4.000%	2.170%	QC6

(Interest accrues from Dated Date)

(1) CUSIP numbers are included solely for the convenience of owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein 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, nor the Initial Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

NO OPTIONAL REDEMPTION . . . The Bonds are not subject to optional redemption prior to stated maturity (see “THE BONDS – No Optional Redemption”).

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Certain information set forth herein has been provided by sources other than the City that the City believes is reliable, but the City makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the 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 "OTHER INFORMATION – Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.)

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

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

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

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEITHER THE CITY NOR THE FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DTC OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

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. (See "OTHER INFORMATION – Forward Looking Statements Disclaimer.")

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

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

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OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Weslaco is a political subdivision and home-rule municipal corporation of the State, located in Hidalgo County, Texas. The City covers approximately 14.72 square miles. (See "INTRODUCTION - Description of the City.")
- THE BONDS**..... The Bonds are issued as \$19,485,000 Limited Tax Refunding Bonds, Series 2016. The Bonds are issued as serial bonds maturing 2018 through 2027. (See "THE BONDS - Description of the Bonds.")
- PAYMENT OF INTEREST** Interest on the Bonds accrues from June 15, 2016 (the "Dated Date"), and is payable August 15, 2016, and each February 15 and August 15 thereafter until maturity. (See "THE BONDS - Description of the Bonds" and "THE BONDS - Optional Redemption.")
- AUTHORITY FOR ISSUANCE** The Bonds are issued pursuant to the general laws of the State, including particularly, Chapter 1207, Texas Government Code, as amended, ("Chapter 1207"), the Weslaco Home Rule City Charter, and an Ordinance passed by the City Commission of the City. (See "THE BONDS - Authority for Issuance.") As permitted by Chapter 1207, the City Commission delegated to certain City officials the authority to execute a "Pricing Certificate" evidencing final sale terms of the Bonds. The Pricing Certificate was executed by a designated City official on June 7, 2016.
- SECURITY FOR THE BONDS** The Bonds constitute obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City. (See "THE BONDS - Security and Source of Payment.")
- REDEMPTION** The Bonds are not subject to optional redemption prior to maturity (see "THE BONDS – No Optional Redemption").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein.
- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be utilized to (i) refund certain maturities of the City's currently outstanding indebtedness as disclosed in Schedule I hereto in order to lower the overall debt service requirements of the City, and (ii) pay the costs of issuance of the Bonds.
- RATINGS** The Bonds and the presently outstanding tax supported debt of the City are rated "AA-" (Upgrade) by S&P Global Ratings ("S&P"), without regard to credit enhancement. Additionally, the City's General Obligation Refunding Bonds, Series 2002; the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003; and the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007 are rated "A3" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement. The City did not make a rating application to Moody's for the Bonds. (See "OTHER INFORMATION - Ratings.")
- BOOK-ENTRY-ONLY SYSTEM** The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS - Book-Entry-Only System.")
- PAYMENT RECORD** The City has never defaulted on its revenue bonds. It has not defaulted on its debt payable from ad valorem taxes since 1937 when all bonds were refunded at par at a reduced rate of interest.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Net Tax Debt ⁽³⁾	Per Capita Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2012	37,786	\$ 1,355,917,390	\$ 35,884	\$ 21,743,583	\$ 575	1.60%	98.66%
2013	38,881	1,390,514,266	35,763	26,644,034	685	1.92%	99.97%
2014	39,794	1,419,011,740	35,659	24,892,468	626	1.75%	98.58%
2015	37,903	1,511,951,489	39,890	23,114,765	610	1.53%	99.23%
2016	37,601	1,661,026,258	44,175	20,735,746	551	1.25%	92.21% ⁽⁴⁾

- (1) Source: City officials.
(2) As reported by the Hidalgo County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.
(3) Does not include self-supporting debt; excludes the Refunded Obligations.
(4) Collections through March 31, 2016.

CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Beginning Net Assets	\$ 24,612,866 ⁽¹⁾	\$ 28,448,819 ⁽²⁾	\$ 25,634,698 ⁽³⁾	\$ 21,536,107 ⁽⁴⁾	\$ 20,054,171
Total Revenue	26,121,250	27,299,305	26,431,666	26,301,276	25,441,737
Total Expenditures	24,520,837	24,156,512	24,496,931	24,727,819	24,959,291
Transfers	2,041,310	1,021,140	1,021,140	1,021,140	996,770
Ending Net Assets	\$ 28,254,589	\$ 32,612,752	\$ 28,590,573	\$ 24,130,704	\$ 21,533,387

- (1) Restatement due to adoption of GASB 68 and de-blending of component unit due to change in reporting entity retroactively.
(2) Restatement due to implementation of GASB 65, eliminating debt issuance costs from the Statement of Activities.
(3) Restated from Fiscal Year 2012 due to overstatement of interest accrued for Chapter 380 Economic Development Agreements and overstatement of accounts payable.
(4) Prior period adjustment to record grant receivable, not recorded in prior year.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
Beginning Balance	\$ 7,125,040	\$ 5,543,591 ⁽¹⁾	\$ 2,989,448 ⁽²⁾	\$ 836,818	\$ (34,679)
Total Revenue	23,380,354	22,058,514	22,047,776	20,835,188	20,671,540
Total Expenditures	21,857,722	18,458,438	17,641,539	17,118,656	20,537,399
Other Sources	(633,445)	(2,018,627)	(1,927,031)	(2,863,172)	187,356
Net Funds Available	889,187	1,581,449	2,479,206	853,360	321,497
Prior Period Adjustment	1,010,759 ⁽³⁾	-	-	2,720	-
Rescindment of Revolving Loan Contingency	-	-	-	-	550,000
Ending Balance	\$ 9,024,986	\$ 7,125,040	\$ 5,468,654	\$ 1,692,898	\$ 836,818

- (1) Restatement as a result of implementation of GASB 65, eliminating debt issuance costs from the Statement of Activities.
(2) Restatement due to overstatement of Chapter 380 interest and overstatement of accounts payable.
(3) Prior period adjustment to reflect amounts committed for construction of Boys & Girls Club, interest on endowment fund and payment reflected in Chapter 380 agreement in prior year.

CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Commission</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
David Suarez Mayor	2 Years	November, 2016	Health Services Administrator
Olga M. Noriega Mayor Pro-Tem, District 2	5 Years	November, 2017	Human Resources Director
Leo Muñoz Commissioner, District 1	6 Months	November, 2018	Professional Engineer
Greg Kerr Commissioner, District 2	1 Year, 6 Months	November, 2017	Attorney
Gerardo "Jerry" Tafolla Commissioner, District 4	7 Years	November, 2018	County Government
Letty Lopez Commissioner, District 5	6 Months	November, 2016	Comptroller
Fidel L. Peña III Commissioner, District 6	2 Years	November, 2016	Attorney

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to the City</u>	<u>Total Government Service</u>
Mike R. Perez	City Manager	1 Year	35 Years
Maria C. Barrera, CPA	Finance Director	1 Year	15 Years
Elizabeth Walker	City Secretary	7 Years	7 Years
Juan E. Gonzalez	City Attorney	6 Months	10 Years

CONSULTANTS AND ADVISORS

Auditors Long Chilton, LLP, Certified Public Accountants
Harlingen, Texas

Bond Counsel Winstead PC
San Antonio, Texas

Financial Advisor..... FirstSouthwest, a Division of Hilltop Securities Inc.
San Antonio and Dallas, Texas

For additional information regarding the City, please contact:

Mr. Mike R. Perez City Manager City of Weslaco, Texas 255 S. Kansas Ave Weslaco, Texas 78596 956-968-3181 - Telephone 956-968-6672 - Fax mrperez@weslacotx.gov	or	Ms. Maria C. Barrera Finance Director City of Weslaco, Texas 255 S. Kansas Ave Weslaco, Texas 78596 956-968-3181 - Telephone 956-968-6717 - Fax mbarrera@weslacotx.gov	or	Ms. Anne Burger Entreklin FirstSouthwest 70 Northeast Loop 410 Suite 710 San Antonio, Texas 78216 210-308-2200 - Telephone 210-349-7585 - Fax anne.burgerentreklin@hilltopsecurities.com
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OFFICIAL STATEMENT

RELATING TO

\$19,485,000

CITY OF WESLACO, TEXAS

(A Home Rule Municipal Corporation of the State of Texas Located in Hidalgo County)

LIMITED TAX REFUNDING BONDS, SERIES 2016

INTRODUCTION

This Official Statement, which includes the Schedule I and Appendices hereto, provides certain information regarding the issuance of \$19,485,000 City of Weslaco, Texas, Limited Tax Refunding Bonds, Series 2016 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance adopted on March 15, 2016 which authorized the issuance of the Bonds (the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City of Weslaco (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, FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), San Antonio and Dallas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1925, and first adopted its Home Rule Charter in 1927. The City operates under a Commission/Manager form of government with a City Commission composed of the Mayor and six commissioners (the "City Commission"). The term of office is three years with the Mayor's term expiring in one year, two Commissioners' terms expiring in the next year and the other Commissioners' terms expiring the following year. 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 wastewater utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 35,670, while the estimated 2016 population is estimated to be 37,601. The City covers approximately 14.72 square miles.

PLAN OF FINANCING

PURPOSE OF THE BONDS . . . Proceeds from the sale of the Bonds will be used to (i) refund certain of the City's outstanding indebtedness as disclosed in Schedule I (the "Refunded Obligations") hereto in order to lower the overall debt service requirements of the City, and (ii) pay the costs of issuance of the Bonds.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Obligations, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Amegy Bank, a division of ZB, National Association, Houston, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Initial Purchaser, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Initial Purchaser thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds** (see "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations").

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

THE BONDS

The Bonds are dated June 15, 2016, and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the Dated Date defined on the cover hereof, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15, commencing August 15, 2016, until maturity. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "THE BONDS - Book-Entry-Only System" herein.)

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly, Chapter 1207, Texas Government Code, as amended, ("Chapter 1207") and the Weslaco Home Rule City Charter, and by the Ordinance adopted by the City Commission on March 15, 2016. As permitted by the provisions of Chapter 1207, the City Commission, in the Ordinance, delegated the authority to certain City officials to execute a "Pricing Certificate" establishing the pricing terms of the Bonds. The Pricing Certificate was executed by a designated City official on June 7, 2016.

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

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

NO OPTIONAL REDEMPTION . . . The Bonds are not subject to optional redemption prior to stated maturity.

AMENDMENTS . . . The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount, thereof, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by registered owners for consent to any such amendment, addition, or rescission.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities (defined herein) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Bonds. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to initiate proceedings to take any action amending the terms of the Bonds are extinguished.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Initial Purchaser, and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

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

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

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

Payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to DTC is the responsibility

of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

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

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

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

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 Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS- Transfer, Exchange and Registration" below.

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

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

PAYMENT RECORD . . . The City has never defaulted on its revenue bonds. It has not defaulted on its debt payable from ad valorem taxes since 1937 when all bonds were refunded at par at a reduced rate of interest.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is Amegy Bank, a division of ZB, National Association, Houston, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar must be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice must 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 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange, and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. (See "Book-Entry-Only System" above for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.) Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

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

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

USE OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds and City contribution are expected to be expended as follows:

Sources of Funds:

Par Amount	\$ 19,485,000.00
Reoffering Premium	3,911,751.40
Debt Service Fund Transfer	401,932.08
Accrued Interest	39,091.67
Total Sources of Funds	<u>\$ 23,837,775.15</u>

Uses of Funds:

Deposit to Escrow Account	\$ 23,574,747.38
Accrued Interest	39,091.67
Costs of Issuance	126,559.09
Underwriter's Discount	97,377.01
Total Uses of Funds	<u>\$ 23,837,775.15</u>

AD VALOREM TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Hidalgo County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value

of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the property's market value for the most recent tax year in which it was appraised or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, plus (b) the property's appraised value for 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 Texas 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; and (2) an exemption of up to 20% of the market value of residence homesteads, subject to a minimum exemption under this provision of \$5,000. The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In 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 certificate 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. Effective January 1, 2010, Section 11.131 to the Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.

Under Article VIII and State law, the City 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 City, 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 older or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. 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 of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a

taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property.

The City and the other taxing bodies within its territory may agree to jointly create tax increment reinvestment zones ("TIRZ"), under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIRZ. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the city. In accordance with a program established pursuant to Chapter 380, a city may make loans or grants of public funds for economic development purposes, however no Bonds 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 . . . The City Commission adopts a tax rate per \$100 taxable value for the current year. The City Commission 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 Commission does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate." A tax rate cannot be adopted by the City Commission 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 Commission 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 for the purpose of reducing the ad valorem tax rate. 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 pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar 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 increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000.

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

(See "Table 1 – Valuation, Exemptions, and Tax Debt" herein for a listing of the amounts of the exemptions described above.)

The City has 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 the Hidalgo County Tax Office collects taxes for the City.

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

The City does not tax freeport property.

The City does tax goods-in-transit.

The City does 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 TAX DEBT

2015/2016 Market Valuation Established by Hidalgo County Appraisal District (excluding totally exempt property)		\$ 1,764,490,123
Less Exemptions/Reductions at 100% Market Value:		
Homestead Cap Adjustment	\$ 16,529,711	
Disabled Veterans	9,986,144	
Over 65 or Disabled	25,215,916	
Pollution	16,650	
Productivity Loss	46,920,401	
Freeport Exemption	4,795,043	<u>103,463,865</u>
2015/2016 Net Taxable Assessed Valuation		<u><u>\$ 1,661,026,258</u></u>
Debt Payable from Ad Valorem Taxes ("Tax Debt") as of March 31, 2016 ⁽¹⁾		
Tax Bonds	\$ 10,640,000	
Certificates of Obligation ⁽²⁾	40,455,000	
Tax Notes	6,545,000	
The Bonds ⁽²⁾	19,485,000	<u>19,485,000</u>
Total Tax Debt		<u>\$ 77,125,000</u>
Less: Self-Supporting Debt ⁽³⁾		
Tax & WW & SS Surplus Revenue Certificates of Obligation, Series 2007	\$ 180,000	
Limited Tax Refunding Bonds, Series 2010	404,254	
Tax Notes, Series 2011	6,545,000	
Certificates of Obligation, Series 2012	24,335,000	
Certificates of Obligation, Series 2014	9,075,000	
The Bonds ⁽²⁾	15,750,000	<u>\$ 56,289,254</u>
Net Tax Debt		<u><u>\$ 20,835,746</u></u>
Tax Debt Interest and Sinking Fund as of March 31, 2016		\$ 834,322
Ratio Net Tax Debt to Taxable Assessed Valuation		1.25%

2016 Estimated Population - 37,601
Per Capita Taxable Assessed Valuation - \$44,175
Per Capita Tax Debt - \$2,051
Per Capita Net Tax Debt - \$554

- (1) Includes self-supporting debt, payable from other bond revenues. The above statement of indebtedness does not include currently outstanding \$870,000 Waterworks and Sewer System Revenue Refunding Bonds, as these bonds are payable solely from the net revenues of the Waterworks and Sewer System (the "System"), as defined in the ordinance authorizing the bonds.
- (2) Excludes the Refunded Obligations.
- (3) Tax Debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self supporting debt is based on the percentages of revenue support as shown in Table 10 herein. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 767,927,011	43.52%	\$ 694,985,107	43.46%	\$ 663,058,965	44.26%
Real, Residential, Multi-Family	56,320,198	3.19%	56,329,799	3.52%	51,373,104	3.43%
Real, Vacant Lots/Tracts	80,813,679	4.58%	83,059,095	5.19%	88,637,060	5.92%
Real, Acreage (Land Only)	47,904,371	2.71%	39,628,046	2.48%	37,509,638	2.50%
Real, Farm and Ranch Improvements	6,661,285	0.38%	3,428,350	0.21%	3,473,538	0.23%
Real, Commercial and Industrial	499,950,844	28.33%	458,736,642	28.69%	407,738,521	27.22%
Real, Oil and Gas	17,460	0.00%	13,000	0.00%	13,060	0.00%
Real and Tangible Personal, Utilities	21,737,536	1.23%	19,260,370	1.20%	17,783,027	1.19%
Tangible Personal, Business	199,752,821	11.32%	162,103,767	10.14%	163,710,318	10.93%
Tangible Personal, Other	49,718,995	2.82%	50,482,614	3.16%	33,976,734	2.27%
Real Property, Inventory	12,223,435	0.69%	13,247,773	0.83%	14,868,860	0.99%
Special Inventory	21,462,488	1.22%	17,843,684	1.12%	15,803,541	1.06%
Miscellaneous	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 1,764,490,123	100.00%	\$ 1,599,118,247	100.00%	\$ 1,497,946,366	100.00%
Less: Total Exemptions/Reductions	103,463,865		87,166,759		78,934,626	
Taxable Assessed Value	\$ 1,661,026,258		\$ 1,511,951,489		\$ 1,419,011,740	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2013		2012	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 658,827,083	44.86%	\$ 639,835,322	44.77%
Real, Residential, Multi-Family	52,848,300	3.60%	50,239,811	3.52%
Real, Vacant Lots/Tracts	85,638,796	5.83%	79,973,894	5.60%
Real, Acreage (Land Only)	42,843,531	2.92%	44,691,975	3.13%
Real, Farm and Ranch Improvements	2,821,955	0.19%	2,793,257	0.20%
Real, Commercial & Industrial	399,049,678	27.17%	392,130,947	27.44%
Real, Oil and Gas	17,050	0.00%	14,750	0.00%
Real and Tangible Personal, Utilities	14,944,144	1.02%	16,005,284	1.12%
Tangible Personal, Business	154,344,631	10.51%	149,060,828	10.43%
Tangible Personal, Other	34,001,847	2.32%	30,413,969	2.13%
Real Property, Inventory	10,042,684	0.68%	14,167,898	0.99%
Special Inventory	13,260,113	0.90%	9,282,035	0.65%
Miscellaneous	-	0.00%	591,494	0.04%
Total Appraised Value Before Exemptions	\$ 1,468,639,812	100.00%	\$ 1,429,201,464	100.00%
Less: Total Exemptions/Reductions	78,125,546		73,284,074	
Taxable Assessed Value	\$ 1,390,514,266		\$ 1,355,917,390	

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

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TABLE 3 - VALUATION AND TAX DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Net Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of Net Tax Debt to Taxable Assessed Valuation	Net Tax Debt Per Capita
2012	37,786	\$ 1,355,917,390	\$ 35,884	\$ 21,743,583	1.60%	\$ 575
2013	38,881	1,390,514,266	35,763	26,644,034	1.92%	685
2014	39,794	1,419,011,740	35,659	24,892,468	1.75%	626
2015	37,903	1,511,951,489	39,890	23,114,765	1.53%	610
2016	37,601	1,661,026,258	44,175	20,735,746	1.25%	551

(1) Source: City officials.

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

(3) Does not include self-supporting debt; excludes the Refunded Obligations.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2012	\$ 0.6967	\$ 0.5039	\$ 0.1928	\$ 9,346,948	92.32%	98.66%
2013	0.6967	0.5016	0.1951	9,559,563	95.14%	99.97%
2014	0.6867	0.5006	0.1861	9,667,300	94.33%	98.58%
2015	0.6867	0.4966	0.1901	10,918,236 ⁽¹⁾	96.06%	99.23%
2016	0.6767	0.5560	0.1207	11,874,419 ⁽¹⁾	92.21% ⁽²⁾	92.21% ⁽²⁾

(1) Calculated at 98% collections.

(2) Unaudited collections through March 31, 2016.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2015/16 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
H E Butt Grocery Company	Grocery Store	\$ 37,016,524	2.23%
Pioneer Hi-Bred International Inc.	Agriculture	35,134,207	2.12%
Clearview Weslaco L.L.P.	Development	18,325,026	1.10%
HEB Weslaco Transportation	Warehouse/Distribution	17,894,167	1.08%
CapCor Weslaco Ltd.	Holding Company	16,131,947	0.97%
Wal-Mart	Real Estate/Retail	11,555,858	0.70%
AEP Texas Central Co.	Electric Utility	10,343,070	0.62%
JCPenney #1101	Retail	7,899,899	0.48%
Wal-Mart Property Tax Department	Real Estate/Retail	7,865,399	0.47%
Weslaco Motors LLP	Automotive Retail	7,652,597	0.46%
		<u>\$ 169,818,694</u>	<u>10.22%</u>

TAX DEBT LIMITATION . . . No Tax Debt limitation is imposed on the City under current State law or the City's Home Rule Charter. (See "THE BONDS - Tax Rate Limitation.")

TABLE 6 - TAX ADEQUACY

2016 Principal and Interest Requirements ⁽¹⁾	\$2,664,681
\$0.1637 Tax Rate at 98% Collection Produces	\$2,664,718
Average Annual Principal and Interest Requirements, 2016- 2034 ⁽¹⁾	\$1,594,723
\$0.0980 Tax Rate at 98% Collection Produces	\$1,595,250
Maximum Annual Principal and Interest Requirements, 2016 ⁽¹⁾	\$2,664,681
\$0.1637 Tax Rate at 98% Collection Produces	\$2,664,718

(1) Does not include self-supporting debt; excludes the Refunded Obligations.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping 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	2015/2016 Taxable Assessed Value	2015/2016 Tax Rate	Total Tax Debt As of 3/31/2016	Estimated % Applicable	City's Overlapping Tax Debt As of 3/31/2016	Authorized But Unissued Debt As Of 3/31/2016
City of Weslaco	\$ 1,661,026,258	\$ 0.6767	\$ 20,835,746 ⁽¹⁾	100.00%	\$ 20,835,746	\$ -
Hidalgo County	30,900,183,389	0.5900	177,400,000	5.65%	10,023,100	-
Hidalgo County Drainage District #1	30,133,625,972	0.0951	145,305,000	5.91%	8,587,526	100,000,000
South Texas College	33,554,392,264	0.1850	171,015,000	4.80%	8,208,720	-
Weslaco Independent School District	1,974,183,138	1.1397	33,709,089 ⁽²⁾	72.86%	24,560,443	-
Total Direct and Overlapping Tax Debt					\$ 72,215,534	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation					4.35%	
Per Capita Overlapping Tax Debt					\$ 1,921	

(1) Does not include self-supporting debt; excludes the Refunded Obligations.

(2) Excludes approximately 69.17% of the district's debt that has qualified for Existing Debt Allotment or Instructional Facilities Allotment payments to be received from the Texas Education Agency.

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TAX DEBT INFORMATION

TABLE 8 - TAX DEBT SERVICE REQUIREMENTS

Year Ending 9/30	Outstanding Tax Debt Service ⁽¹⁾			The Bonds			Less:		% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Self-Supporting Debt Service	Total Tax Debt Service	
2016	\$ 4,500,000	\$ 3,245,950	\$ 7,745,950	\$ -	\$ 156,367	\$ 156,367	\$ 5,237,636	\$ 2,664,681	
2017	4,400,000	2,153,429	6,553,429	-	938,200	938,200	4,871,300	2,620,329	
2018	4,375,000	2,029,969	6,404,969	265,000	935,550	1,200,550	5,057,445	2,548,073	
2019	3,230,000	1,903,789	5,133,789	560,000	918,900	1,478,900	4,068,012	2,544,677	
2020	3,180,000	1,812,481	4,992,481	1,895,000	857,525	2,752,525	5,202,581	2,542,425	
2021	3,260,000	1,724,356	4,984,356	1,995,000	760,275	2,755,275	5,201,681	2,537,950	34.67%
2022	3,345,000	1,638,844	4,983,844	2,095,000	658,025	2,753,025	5,195,056	2,541,813	
2023	3,455,000	1,538,906	4,993,906	2,200,000	550,650	2,750,650	5,197,456	2,547,100	
2024	2,020,000	1,452,856	3,472,856	2,420,000	435,150	2,855,150	5,193,731	1,134,275	
2025	2,115,000	1,356,456	3,471,456	2,555,000	310,775	2,865,775	5,196,531	1,140,700	
2026	2,225,000	1,255,506	3,480,506	2,690,000	179,650	2,869,650	5,205,206	1,144,950	66.15%
2027	2,335,000	1,149,306	3,484,306	2,810,000	56,200	2,866,200	5,210,506	1,140,000	
2028	3,380,000	1,033,556	4,413,556	-	-	-	3,815,656	597,900	
2029	3,545,000	871,981	4,416,981	-	-	-	3,819,331	597,650	
2030	3,725,000	702,506	4,427,506	-	-	-	3,826,006	601,500	
2031	3,900,000	521,956	4,421,956	-	-	-	3,820,206	601,750	90.83%
2032	4,095,000	332,881	4,427,881	-	-	-	3,827,131	600,750	
2033	1,865,000	154,525	2,019,525	-	-	-	1,421,025	598,500	
2034	1,355,000	67,750	1,422,750	-	-	-	1,422,750	-	100.00%
	<u>\$ 60,305,000</u>	<u>\$ 24,947,005</u>	<u>\$ 85,252,005</u>	<u>\$ 19,485,000</u>	<u>\$ 6,757,267</u>	<u>\$ 26,242,267</u>	<u>\$ 82,789,249</u>	<u>\$ 28,705,023</u>	

(1) Does not include lease/purchase obligations; excludes the Refunded Obligations.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Debt Service Requirements, Fiscal Year Ending 9/30/2016 ⁽¹⁾		\$ 2,664,681
Interest and Sinking Fund, 9/30/2015 ⁽²⁾	\$ 1,100,751	
Budgeted Interest and Sinking Fund Tax Levy	1,858,006	
Estimated Interest Income/Delinquent Taxes/Penalties	<u>120,000</u>	<u>3,078,757</u>
Estimated Balance, Fiscal Year Ending 9/30/2016		<u>\$ 414,076</u>

(1) Does not include self-supporting debt; excludes the Refunded Obligations.

(2) Unaudited, provided by City officials.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT

Net Waterworks and Sewer System Revenue Available as of 9/30/2015 ⁽¹⁾	\$ 7,725,950
Less: Requirements for Waterworks and Sewer System Revenue Bonds	<u>457,691</u>
Balance Available for Other Purposes	<u>\$ 7,268,260</u>
Requirements for Waterworks and Sewer System Tax Debt	\$ 4,873,608
Percentage of Waterworks and Sewer System Tax Debt Self-Supporting	100.00%
Net Sewer System Revenue Available as of 9/30/2015 ⁽¹⁾	\$ 672,423
Less: Requirements for Sewer System Revenue Bonds	<u>-</u>
Balance Available for Other Purposes	<u>\$ 672,423</u>
Requirements for Sewer System Tax Debt	\$ -
Percentage of Sewer System Tax Debt Self-Supporting	100.00%

(1) Unaudited, provided by City officials.

TABLE 11 - AUTHORIZED BUT UNISSUED TAX DEBT

The City has no authorized but unissued Tax Debt.

ANTICIPATED ISSUANCE OF TAX DEBT . . . The City does not anticipate the issuance of additional Tax Debt within the next 12 months.

TABLE 12 – OTHER OBLIGATIONS

The City currently has no other tax supported debt obligations.

The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligation, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City’s needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.
- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes; may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported bonds without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.
- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

In addition to additional voted tax debt and the debt described above, the City has the legal authority to issue the other debt obligations which could include sales tax bonds, limited tax notes, lease purchase agreements, tax anticipation notes, bond anticipation notes, certificates of participation, or traditional bank loans, all without an election.

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

OTHER POST-EMPLOYMENT BENEFITS . . . The City does not pay any postemployment benefits and no unfunded actuarial accrued liabilities are required under GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*.

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FINANCIAL INFORMATION

TABLE 13 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
REVENUES:					
Program Revenues:					
Charges for Services	\$ 3,146,046	\$ 2,742,959	\$ 2,865,240	\$ 2,675,758	\$ 2,267,190
Operating Grants and Contributions	273,122	233,899	99,359	16,179	-
Capital Grants and Contributions	1,065,726	463,568	454,010	724,994	500,163
General Revenues:					
Property Taxes	10,352,897	9,767,217	9,823,287	9,710,670	9,632,751
Sales Taxes	8,779,266	11,441,937	11,182,267	10,578,320	9,864,624
Hotel Occupancy Taxes	384,439	419,960	382,934	336,419	358,390
Other Taxes	-	98,368	79,912	65,650	71,488
Franchise Fees	1,855,156	1,566,401	1,561,020	1,565,484	1,653,298
Investment Earnings	31,839	130,602	89,278	66,619	64,147
Intergovernmental	-	-	16,149	4,421	77,375
Gain (loss) on sale of assets	-	56,720	(348,529)	116,255	100,339
Rescindment of Revolving Loan Contingency	-	-	-	-	550,000
Revaluation of Compensated Absences	-	-	-	191,261	-
Miscellaneous	232,759	377,674	226,739	249,246	301,972
Total Revenues	\$ 26,121,250	\$ 27,299,305	\$ 26,431,666	\$ 26,301,276	\$ 25,441,737
EXPENSES:					
General Government	\$ 7,159,359	\$ 4,699,927	\$ 4,077,130	\$ 4,079,035	\$ 4,426,526
Public Safety	11,530,338	10,563,302	10,714,272	10,195,023	11,562,667
Emergency medical services	101,226	269,969	332,102	462,305	398,347
Culture and Recreation	1,793,425	1,660,311	1,692,154	1,693,692	1,144,997
Public Works	2,927,110	3,056,584	3,039,309	2,626,866	2,669,907
Development services	-	2,143,748	2,719,417	2,412,090	3,101,439
Health and Welfare	-	-	90,067	88,459	104,426
Sales Tax Rebates	-	580,488	645,082	843,933	98,539
Interest on Long-term Debt	1,009,379	1,182,183	1,187,398	2,326,416	1,452,443
Total Expenditures	\$ 24,520,837	\$ 24,156,512	\$ 24,496,931	\$ 24,727,819	\$ 24,959,291
Increase in Net Assets Before Transfers	\$ 1,600,413	\$ 3,142,793	\$ 1,934,735	\$ 1,573,457	\$ 482,446
Transfers	2,041,310	1,021,140	1,021,140	1,021,140	996,770
Increase in Net Assets	\$ 3,641,723	\$ 4,163,933	\$ 2,955,875	\$ 2,594,597	\$ 1,479,216
Beginning Net Assets	24,612,866 ⁽¹⁾	28,448,819 ⁽²⁾	25,634,698 ⁽³⁾	21,536,107 ⁽⁴⁾	20,054,171
Ending Net Assets	\$ 28,254,589	\$ 32,612,752	\$ 28,590,573	\$ 24,130,704	\$ 21,533,387

- (1) Restatement due to adoption of GASB 68 and de-blending of component unit due to change in reporting entity retroactively.
- (2) Restatement due to implementation of GASB 65, eliminating debt issuance costs from the Statement of Activities.
- (3) Restated from Fiscal Year 2012 due to overstatement of interest accrued for Chapter 380 Economic Development Agreements and overstatement of accounts payable.
- (4) Prior period adjustment to record grant receivable, not recorded in prior year.

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2015	2014	2013	2012	2011
REVENUES					
Taxes	\$ 18,220,810	\$ 15,940,661	\$ 17,267,563	\$ 15,056,656	\$ 16,296,631
Licenses and Permits	479,501	446,828	405,601	381,323	363,068
Intergovernmental	273,123	323,179	569,518	241,977	577,538
Franchise Fees	-	1,566,401	-	1,565,484	-
Charges for Services	3,471,864	2,783,840	2,832,851	2,540,973	2,565,294
Fine and Forfeitures	523,767	636,486	668,891	772,752	463,778
Interest	20,372	11,688	10,374	10,218	10,774
Contributions	-	2,736	-	500	-
Miscellaneous	390,917	289,580	217,535	223,443	283,129
Sale of Assets	-	57,115	75,443	41,862	111,328
Total Revenues	<u>\$ 23,380,354</u>	<u>\$ 22,058,514</u>	<u>\$ 22,047,776</u>	<u>\$ 20,835,188</u>	<u>\$ 20,671,540</u>
EXPENDITURES					
Current Expenditures:					
General Government	\$ 5,991,720	\$ 4,617,018	\$ 3,696,510	\$ 3,796,704	\$ 4,255,134
Public Safety	10,476,065	10,483,329	10,699,897	10,327,350	11,664,128
Public Works	1,790,960	1,558,496	1,556,054	1,299,033	1,342,074
Health and Welfare	-	-	85,956	84,348	100,315
Culture and Recreation	1,118,457	944,014	997,701	861,319	959,685
Economic Development	593,849	-	-	-	-
Judicial & Legal	-	-	-	-	684,020
Nondepartmental	-	565,216	477,223	395,172	-
Capital Outlay	1,243,679	290,365	128,198	354,730	215,182
Debt Service	642,992	-	-	-	1,316,861
Total Expenditures	<u>\$ 21,857,722</u>	<u>\$ 18,458,438</u>	<u>\$ 17,641,539</u>	<u>\$ 17,118,656</u>	<u>\$ 20,537,399</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES					
	<u>\$ 1,522,632</u>	<u>\$ 3,600,076</u>	<u>\$ 4,406,237</u>	<u>\$ 3,716,532</u>	<u>\$ 134,141</u>
OTHER FINANCING SOURCES (USES)					
Lease Proceeds	\$ 658,299.00	\$ -	\$ -	\$ -	\$ 1,300,000
Operating Transfers In	1,169,014	-	-	-	-
Operating Transfers Out	(2,460,758)	(700,000)	(700,000)	(480,000)	(200,000)
Economic Development	-	(1,318,627)	(1,227,031)	(2,383,172)	(912,644)
Total Other Financing Sources (Uses)	<u>\$ (633,445)</u>	<u>\$ (2,018,627)</u>	<u>\$ (1,927,031)</u>	<u>\$ (2,863,172)</u>	<u>\$ 187,356</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES					
	\$ 889,187	\$ 1,581,449	\$ 2,479,206	\$ 853,360	\$ 321,497
FUND BALANCES AT BEGINNING OF YEAR					
	<u>\$ 7,125,040</u>	<u>\$ 5,543,591</u> ⁽¹⁾	<u>\$ 2,989,448</u> ⁽²⁾	<u>\$ 836,818</u>	<u>\$ (34,679)</u>
Rescindment of Revolving Loan Contingency					
	\$ -	\$ -	\$ -	\$ -	\$ 550,000
Prior period adjustment					
	<u>1,010,759</u> ⁽³⁾	<u>-</u>	<u>-</u>	<u>2,720</u>	<u>-</u>
FUND BALANCES AT END OF YEAR					
	<u>\$ 9,024,986</u>	<u>\$ 7,125,040</u>	<u>\$ 5,468,654</u>	<u>\$ 1,692,898</u>	<u>\$ 836,818</u>

- (1) Restatement as a result of implementation of GASB 65, eliminating debt issuance costs from the Statement of Activities.
- (2) Restatement due to overstatement of Chapter 380 interest and overstatement of accounts payable.
- (3) Prior period adjustment to reflect amounts committed for construction of Boys & Girls Club, interest on endowment fund and payment reflected in Chapter 380 agreement in prior year.

TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Texas 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 Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On May 5, 1990, 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. The sales tax for economic development is collected solely for the benefit of Weslaco Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2012	\$ 7,887,864	84.39%	\$ 0.5817	208.75
2013	8,386,700	87.73%	0.6031	215.70
2014	8,581,453	88.77%	0.6047	215.65
2015	8,846,951	81.03%	0.5851	233.41
2016	4,194,925 ⁽³⁾	35.33%	0.2775	110.68

- (1) Excludes half-cent sales tax for economic development.
- (2) Based on population estimates of provided by City officials.
- (3) Unaudited collections as of March 31, 2016.

The sales tax breakdown for the City is as follows:

Property Tax Relief	0.50¢
Weslaco Economic Development Corporation (4A)	0.50¢
City Sales and Use Tax	1.00¢
State Sales and Use Tax	<u>6.25¢</u>
Total	<u>8.25¢</u>

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenues at that time. All major revenues are susceptible to accrual.

Expenditures are generally recognized under the modified basis of accounting when the related fund liability is incurred. Exceptions to this general rule include debt service expenditures and expenditures related to compensated absences which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Budgetary Procedures . . . The City follows these procedures in establishing the budgetary data reflected in the financial statements: The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year after which the City Manager subsequently submits a budget of estimated expenditures and revenues to the City Commission by August 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through the passage of an ordinance. The City Secretary is authorized to transfer budgeted amounts between departments within any fund; any revisions that alter the total expenditures of any fund must be approved by the City Commission. Budgets for the General and Proprietary Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Unused appropriations for all of the above annually budgeted funds lapse at the end of the fiscal year.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Available City funds are invested as authorized by State law and in accordance with investment policies approved by the City. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State 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 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 and share certificates issued by, or invested by an investing entity through, a depository institution that has its main office or a branch office in the State, that are guaranteed or insured as required by, or otherwise meet the requirements of, the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended); (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; (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 governmental body or a third party designated by the governmental body; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (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 United States or state bank, (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described 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 "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

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

INVESTMENT POLICIES . . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include 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.

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 Commission.

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

TABLE 15 - CURRENT INVESTMENTS

Unaudited, as of March 31, 2016, the City’s investable funds were invested in the following categories:

Description	Book Value	Market Value	% of Portfolio
Investment Pools	\$ 8,738,677	\$ 8,738,677	92.35%
Certificates of Deposit	475,592	475,592	5.03%
Money Market	248,106	248,106	2.62%
	<u>\$ 9,462,375</u>	<u>\$ 9,462,375</u>	<u>100.00%</u>

As of such date, 100.00% of the City’s investment portfolio is available within 12 months. The market value of the investment portfolio was approximately 100.00% of its purchase price.

FEDERAL TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Winstead PC, San Antonio, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of 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 Bonds, owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust (REIT), a financial asset securitization investment trust (FASIT), or a real estate mortgage investment conduit (REMIC). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon the report of Grant Thornton LLP, regarding the sufficiency of the deposit to the Escrow Fund or the date of delivery of the Bonds, and upon representations and certifications of the City and the City Commission made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City and the City Commission with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds 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, owners of an interest in a financial asset securitization investment trust, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or how 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.

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 and the City Commission described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Bonds 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 Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

TAX ACCOUNTING TREATMENT OF PREMIUM BONDS . . . The initial public offering price of certain Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds 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 Bonds. The basis for federal income tax purposes of a Premium Bond 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 Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification retroactively. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE RECEIPT OR ACCRUAL OF INTEREST ON OR THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be included in the "adjusted profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, owners of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns with respect to federal income taxes.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" (defined below) to the extent such gain does not exceed the accrued market discount (defined below) of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the owner at a purchase price which is less than the state redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original discount). The "accrued market discount" is the

amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

LAW CHANGES . . . From time to time, there are Presidential proposals, proposals of various federal COMMITTEES, and legislative proposals in the United States Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent owners of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability, or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

STATE, LOCAL, AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding tax supported debt of the City are rated "AA-" by S&P Global Ratings ("S&P"), without regard to credit enhancement which represents an upgrade from A+ received on May 26, 2016 from S&P. Additionally, the City's General Obligation Refunding Bonds, Series 2002, the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003 and the Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007 are rated "A3" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement. The City did not make a rating application to Moody's for the Bonds. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective 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 such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds 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. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. (See "OTHER INFORMATION - Ratings" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income of the owners thereof for federal income tax purposes under existing statutes, publications, and rulings. Though they represent from time to time the Initial Purchaser and the Financial Advisor in matters unrelated to the issuance of the Bonds, Winstead PC, in its capacity as Bond Counsel, represents only the City in connection with the issuance of the Bonds. In its capacity as Bond Counsel, Winstead PC, San Antonio, Texas, has reviewed the information under the captions "THE BONDS" (except for the subcaptions "Payment Record," "Use of Bond Proceeds", and "Transfer Exchange and Registration," as to which no opinion is expressed),"TAX MATTERS", "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "Legal Investments and Eligibility to Secure Public Funds In Texas", and "Continuing Disclosure of Information" (except the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information relating to the Bonds 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 Bonds, such information conforms to the Ordinance. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the United States 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 specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will file with EMMA annually certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2016.

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 unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

MATERIAL EVENT NOTICES . . .

Notice of Occurrence of Certain Events, Whether or Not Material . . . The City will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Certificates, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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-exempt status of the Certificates, or other events affecting the tax-exempt status of the Certificates; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. (Neither the Certificates nor the Ordinance make any provision for credit enhancement - unless a municipal bond insurance policy is obtained - or liquidity enhancement.)

For these purposes, any event described in the immediately preceding paragraph (9) is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Notice of Occurrence of Certain Events, If Material . . . The City also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Certificates, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults (2) modifications to rights of holders; (3) redemption calls; (4) release, substitution, or sale of property securing repayment of the Certificates; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

Notice of Failure to Timely File . . . The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

AVAILABILITY OF INFORMATION . . . The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge via EMMA.

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an Initial Purchaser to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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 Initial Purchaser from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The City received a rating upgrade from S&P in 2012 and 2014 as part of the delivery of bonds issued in such years. Such rating upgrades were included in the official statements for such bonds. However, a material event notice was not filed with EMMA. Except as described, during the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 in regards to its general obligation debt.

FINANCIAL ADVISOR

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

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, a firm of independent public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the City and its representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the City and its representatives and has not evaluated or examined the assumptions or information used in the computations.

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the City accepted the bid of Citigroup Global Markets Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of par plus a cash premium of \$3,911,751.40. The initial reoffering yields shown on page 2 were provided to the City by the Initial Purchaser and will produce compensation to the Initial Purchaser of approximately \$97,377.01. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The Ordinance approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Initial Purchaser. The Official Statement has been approved by the City Commission for distribution in accordance with provisions of the Rule.

/s/ David Suarez
Mayor
City of Weslaco, Texas

ATTEST:

/s/ Elizabeth Walker
City Secretary
City of Weslaco, Texas

SCHEDULE OF REFUNDED OBLIGATIONS

Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>
2/1/2006	2/15/2017 ⁽¹⁾	4.25%	\$ 650,000
	2/15/2019 ⁽²⁾	5.25%	2,955,000
	2/15/2021 ⁽²⁾	4.70%	4,055,000
	2/15/2023 ⁽²⁾	5.00%	4,460,000
	2/15/2025 ⁽²⁾	5.00%	4,940,000
	2/15/2027 ⁽²⁾	5.00%	5,465,000
			<u>\$ 22,525,000</u>

The 2017 through 2027 maturities will be redeemed prior to original maturity on February 15, 2017.

- (1) Serial Bond.
(2) Term Bond.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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LOCATION AND POPULATION

The City of Weslaco (the “City”) is located in the eastern edge of Hidalgo County between McAllen and Harlingen in the Lower Rio Grande Valley. The City is 260 miles south of San Antonio, 322 miles south of Austin, 330 miles southwest of Houston, 5 miles north of the Rio Grande, and 60 miles west of the Gulf of Mexico.

Population statistics for the City and Hidalgo County include:

	<u>City of Weslaco</u>	<u>Hidalgo County</u>
1970 Census	15,313	181,535
1980 Census	19,331	283,229
1990 Census	21,877	383,545
2000 Census	26,935	569,463
2010 Census	35,670	774,769

ECONOMY

The City is a commercial center to a variety of businesses and product types. For example, a manufacturer of bathroom vanities employs more than 350 persons. The economy is based on retail trade, healthcare, education, winter tourism, agriculture, and international trade. The Lower Rio Grande Valley Research and Experiment Center (the “Center”) is located in the City. The Center is composed of the Texas A&M University Experiment and Extension Service and the Texas A&M University Kingsville Citrus Center - Weslaco.

The following is a compilation of the City’s top employers as of December 2015⁽¹⁾.

<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Weslaco Independent School District	Education	2,603
Knapp Medical Center	Hospital	920
HEB (3 locations)	Retail Grocery Store	555
Wal-Mart	Retail Department Store	399
Woodcrafters	Manufacturer of Bathroom Vanities	366
Payne Auto Group	Retail Auto Sales	307
City of Weslaco	Government	279
South Texas College	Education - College	193
JC Penney	Retail Department Store	150
Texas A&M University	Agricultural Experiment Station	106

(1) Weslaco Economic Development Corporation.

HISTORICAL EMPLOYMENT DATA FOR CITY OF WESLACO⁽¹⁾

	<u>2015⁽²⁾</u>	<u>2014⁽³⁾</u>	<u>2013⁽³⁾</u>	<u>2012⁽³⁾</u>	<u>2011⁽³⁾</u>
Civilian Labor Force	14,388	14,206	14,373	14,640	14,522
Total Employed	13,523	13,279	13,175	13,019	12,898
Total Unemployed	865	927	1,198	1,621	1,624
Unemployment Rate	6.0%	6.5%	8.3%	11.1%	11.2%
% Unemployed (Texas)	4.3%	4.5%	5.1%	6.2%	6.7%
% Unemployed (U.S.)	5.2%	5.3%	6.2%	7.4%	8.1%

(1) Source: Texas Workforce Commission.

(2) As of February 2016.

(3) Average annual statistics.

TRANSPORTATION

The City has railroad service provided by Rio Valley Switching and Union-Pacific. Valley Transit, Trailways and Rio Metro Transit provide bus transportation. The City-owned Weslaco Mid-Valley Airport is a general aviation airport with a primary runway length of 5,000 feet with International Landing Rights. Commercial air service is located 17 miles west of Weslaco at the McAllen-Miller International Airport and 17 miles east of Weslaco at the Valley International Airport in Harlingen. Commercial service is provided by the following airlines: United, Delta, Southwest and American. Motor freight lines include Nafta Motor Freight, Overnite Transportation, Central Freight, Motor Express, Roadway Express, ABF Freight and Yellow Freight Lines. U.S. Highways 77 and 281 provide north-south travel and U.S. Highways 281 and 83 provide east-west travel.

EDUCATION

Weslaco Independent School District (the "District") encompasses approximately 54.72 square miles including the City and a substantial portion of the City of Mercedes in Hidalgo County, Texas. The school facilities currently provided by the District include eleven elementary schools, four middle schools, three high schools and 2 alternative schools.

Historical enrollment for the District is as follows:

<u>School Year</u>	<u>Enrollment</u>
2010-11	17,839
2011-12	17,788
2012-13	17,936
2013-14	17,731
2014-15	17,409

Source: Texas Education Agency.

CONTINUING EDUCATION AND HIGHER EDUCATION

Opportunities for higher education as well as customized technical and industrial training are abundant in the Weslaco area, allowing the area to meet the demands for a well-trained pool of entry-level and upper-level professionals.

South Texas Vo-Tech offers specialized entry-level career training in business, medical, legal and child care services.

South Texas College, a Junior College District (Hidalgo and Starr Counties with a campus in Weslaco). South Texas College's Mid-Valley Campus (Weslaco, Texas) opened its doors in Fall 2000 to bring higher education opportunities closer to home for the citizens of the area. The 46.5 acre campus has several state-of-the art facilities, including two large academic buildings, a library, Student Success Center, Student Services Building, Workforce Center and event pavilion. The campus offers Bachelor Degrees and two-year Associate Degrees for continued studies in both the technical and industrial fields. The estimated Fall 2015 enrollment was 34,641.

Texas State Technical College (Harlingen) offers two-year associate degrees and offers a vast selection of courses for continued study in both technical and industrial fields.

The University of Texas Rio Grande Valley on December 16, 2012, the University of Texas Board of Regents approved a proposal to abolish The University of Texas Pan American and The University of Texas at Brownsville, and create the University of Texas Rio Grande Valley ("UTRGV") in their place. On June 14, 2013, Texas Governor Rick Perry signed SB 24 into law, approving the creation of the new university with campuses throughout the Valley. The UT Board of Regents voted to name the new institution the University of Texas Rio Grande Valley on December 12, 2013. UTRGV enrolled its first class in the fall of 2015 and the School of Medicine will open in 2016.

FINANCIAL INSTITUTIONS

The City is served by ten banks. Most are branch banks and local deposits are not available.

MEDICAL FACILITIES

Knapp Medical Center is a not-for-profit, acute care hospital in South Texas providing healthcare services to residents of the Rio Grande Valley since 1962. The medical center is located in the City and provides state-of-the-art technology, progressive diagnostic and treatment options, and patient-focused care. The medical center has 233 beds, approximately 200 physicians on the medical staff, that are all independent professional practitioners representing different specialties, and has a staff of approximately 920.

The City also has 12 home health agencies, 4 nursing homes, 13 pharmacies and 12 dentists.

RECREATION AND CULTURE

The City has 2 golf courses, 2 swimming pools, 6 tennis courts and 7 parks. The City is served by 37 churches. Eleven hotels and motels, with 740 rooms, and 13 retirement communities/RV parks are located in the City.

BUILDING PERMITS

Fiscal Year	Commercial Construction		Residential Construction		Total Value
	Number of Units	Value	Number of Units	Value	
2007	27	\$ 28,295,025	351	\$ 34,538,757	\$ 62,833,782
2008	33	16,315,371	195	20,666,509	36,981,880
2009	41	15,735,120	172	14,763,345	30,498,465
2010	35	14,639,780	131	21,589,716	36,229,496
2011	17	13,824,156	90	8,782,660	22,606,816
2012	13	4,077,088	120	11,016,370	15,093,458
2013	20	15,218,950	127	11,694,972	26,913,922
2014	13	12,942,544	126	9,835,739	22,778,283
2015	13	5,816,425	167	17,394,065	23,210,490

HIDALGO COUNTY

Information concerning Hidalgo County (the “County”) is included herein for information purposes only and the County is not obligated in any way to pay the Bonds. The County is located in the Rio Grande Valley of South Texas and is one of the fastest-growing counties in the United States. The County is the seventh most-populous county in Texas. Its 2010 census population was 774,769, a 35% increase from 2000. It is named for Miguel Hidalgo y Costilla, the priest who raised the call for Mexico's independence from Spain. The seat of the County is Edinburg, while the largest city is McAllen.

The McAllen–Edinburg–Mission Metropolitan Statistical Area is located within the County. It is bordered by Cameron County on the east, Brooks County on the north, Starr County on the west, and Mexico on the south. The County is located opposite of the Mexican city of Reynosa, across the Rio Grande River.

The County comprises of 1,583 square miles of the Rio Grande River delta. The northern part of the County has sandy and light loamy soils over deep reddish or mottled, clayey subsoils. In some areas, limestone lies within forty inches of the surface. The southern part of the County has moderately deep to deep loamy surfaces over clayey subsoils. The County is in the South Texas Plains vegetation area, which features grasses, mesquite, live oaks, and chaparral. Native plants, reduced in recent years by extensive farming, include chapote, guayacan, ebony, huisache, Brazilwood, and yucca.

HISTORICAL EMPLOYMENT DATA FOR HIDALGO COUNTY⁽¹⁾

	2015 ⁽²⁾	2014 ⁽³⁾	2013 ⁽³⁾	2012 ⁽³⁾	2011 ⁽³⁾
Civilian Labor Force	336,185	331,609	331,990	332,003	328,390
Total Employed	310,914	305,310	302,917	297,910	293,590
Total Unemployed	25,271	26,299	29,073	34,093	34,800
Unemployment Rate	7.5%	7.9%	8.8%	10.3%	10.6%
% Unemployed (Texas)	4.3%	4.5%	5.1%	6.2%	6.7%
% Unemployed (U.S.)	5.2%	5.3%	6.2%	7.4%	8.1%

(1) Source: Texas Workforce Commission.

(2) As of February 2016.

(3) Average annual statistics.

EMPLOYMENT BY INDUSTRY AND WAGES (HIDALGO COUNTY)⁽¹⁾⁽²⁾

	Third Quarter				
	2015	2014	2013	2012	2011
Natural Resources and Mining	4,585	5,621	5,253	5,397	5,217
Construction	6,916	7,095	6,880	6,609	6,577
Manufacturing	6,467	6,182	6,178	5,983	5,741
Trade, Transportation & Utilities	53,506	51,888	50,040	48,502	46,670
Information	2,249	2,217	2,142	1,924	2,056
Financial Activities	8,852	8,812	8,830	8,628	8,338
Professional and Business Services	15,090	15,038	14,966	14,648	14,614
Education and Health Services	64,039	61,501	59,513	57,620	57,285
Leisure and Hospitality	22,897	21,870	21,067	19,900	19,659
Other Services	4,007	3,950	3,877	3,804	3,799
Unclassified	92	42	63	111	30
State Government	6,627	6,109	5,995	5,905	5,778
Local Government	42,303	41,270	40,994	40,276	40,155
Total Employment	237,632	231,595	225,799	219,308	215,926
Total Wages	\$ 1,869,202,541	\$ 1,800,611,076	\$ 1,696,125,957	\$ 1,627,465,195	\$ 1,652,703,710

(1) Source: Texas Workforce Commission.

(2) Statistics do not include Federal employees or their wages.

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APPENDIX B

EXCERPTS FROM THE
CITY OF WESLACO, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this Appendix consists of excerpts from the City of Weslaco, 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.

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the City Commission
City of Weslaco, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Weslaco, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

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

Change in Accounting Principle

As described in Note A to the financial statements, in 2015, the City adopted new accounting guidance, *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*. Our opinion is not modified with respect to this matter.

Change in Reporting Entity

As discussed in Note A to the financial statements, in 2015, the City determined that the Economic Development Corporation Component Unit meets the criteria for being presented as a discretely presented component unit, rather than as a blended component unit. The impact of this change in reporting entity is further disclosed in Note T to the financial statements. 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, and pension supplementary information on pages 25-31 and 90-94 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Weslaco, Texas' basic financial statements. The introductory section, other supplementary information, additional supplementary information and statistical section as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2016, on our consideration of the City of Weslaco, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Weslaco, Texas' internal control over financial reporting and compliance.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
May 17, 2016

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MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the City of Weslaco, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Weslaco for the fiscal year ended September 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 11-14 of this report.

FINANCIAL HIGHLIGHTS

The City's total net position increased about \$8.2M as a result of this year's operations, taking into account the effect of removing the operations of the Weslaco Economic Development Corporation, which has been restated as a discretely presented component unit of the primary government. Governmental activities contributed \$3.6M, with the balance of \$4.6M resulting from business-type activities. This reflects about a 4.7% increase to net position.

- Governmental Activities – Revenues and Expenses Compared to Last Year (as restated) – Total revenues increased \$1.88M over last year, with sales tax showing a moderate increase of \$263,751. Property tax collections increased by about \$585,680, and franchise taxes saw an increase of \$288,755. Expenses increased about \$2.5M or 11.4% more than last year. This was the result of increases in interest cost of \$68,315, \$1.88M in general government and administration, \$797,993 in public safety and emergency medical services, and \$133,114 in culture and recreation. There was a decrease in public works of about \$129,474. A transfer to a new fund was made of \$500,000, as mentioned below.
- Business-Type Activities – Revenues and Expenses compared to Last Year- Total revenues increased \$4.3M from last year, largely due to a major airport expansion project that saw a \$3.7M grant contribution. Charges for services increased by \$694,827. Expenses saw a large increase of 14.67% or \$1.28M in water and wastewater services, while solid waste expenses saw an increase of about 5.58% or \$229,722. Airport services experienced an increase of about \$125,463 in expenses, or about 23%.
- New Funds – It should be noted that at year end, the City Commission voted to create two new Capital Project Funds (which are reported in the Governmental Activities). The Capital Improvement Program (CIP) fund was established to allow the City to self-fund capital improvement projects, such as sidewalks, traffic signals, park improvements, street paving, etc. in order to decrease dependence on debt financing for such infrastructure. This fund received transfers of excess revenue over expenses from the Solid Waste fund in the amount of \$750,000, and \$500,000 from the General Fund. The new Fire Department Equipment Replacement (FDER) fund was created to allow the City to self-fund capital asset purchases for equipment for the Fire Department. Again, the intent is to eventually decrease the City's dependence on debt financing, although for the first few years, capital leases will be utilized to acquire the needed equipment. Nonetheless, the debt service payments will be made from the FDER fund. No transfers to the FDER fund were made before fiscal year end. However, the intent is to make regular transfers amounting to 25% of the revenue collected from EMS billings.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources of the City, and the statements are presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

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

Activities of the City as a whole include governmental activities, and business-type activities. Governmental activities are those activities which are financed primarily through taxes and grants.

Most of the City's basic services are reported as governmental activities. Business-type activities are those activities that are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Weslaco Economic Development Corporation (EDC), which is a legally separate entity, and reported as a discretely presented component unit. The City Commission appoints the EDC board members and sets expenditure caps over which the City of Weslaco Commissioners' approval is required. Financial information for this discretely presented component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 35-37 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service, and 2013 certificates of obligation construction fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and hotel/motel tax fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 38-41 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and wastewater fund, for its solid waste fund and for its airport fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities section of the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater fund, the solid waste fund, and the airport fund, all of which are considered to be major enterprise funds of the City of Weslaco.

The basic proprietary fund financial statements can be found on pages 42-45 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Weslaco's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City recognizes two fiduciary funds: the Firemen's Relief and Retirement Fund, which is a pension trust fund, and the Marion Booth Endowment Fund, which is a private purpose trust fund.

The basic fiduciary fund financial statements can be found on pages 46-47 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 50 of this report.

In fiscal year 2015, the City adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board. Below is a description of the adopted statements and their effect on the City's financial statements:

1. Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
2. Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.*

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. This Statement replaces the requirement 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 administered through trusts or equivalent arrangements 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 on the contributions to the TMRS 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 liabilities 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. Net position as of October 1, 2014 was decreased by \$6,416,348 to reflect the cumulative effect of adoption in regards to the City's TMRS Plan and Firemen's Pension.

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 fiscal year-end, the effect from the City's reported contributions to the plan subsequent to the respective measurement date of the plan is an increase in deferred outflow of resources and a decrease in net position.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$71,737,197 at the close of the most recent fiscal year.

On September 30, 2015, the City had an outstanding bonds balance of \$84,120,558, excluding \$4,965,000 in the component unit. The City has unspent bond proceeds to be used for completing the 2007 bond issues projects that were committed for different purposes such as street improvements, purchase of paving equipment, and the airport runway expansion.

At the end of the current fiscal year, the City of Weslaco is able to report positive balances of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental Activities

The property tax levy increased by \$284,886 (2.95%) from the prior year due partly to increases in valuation and partly to newly annexed property. The tax rate has been reduced or maintained each year for the last eight years. This has been due to a concerted effort on the part of the City Commission to maintain or reduce the tax rate.

Sales tax rebates amounted to \$11,705,688 for the year with an increase of \$263,756 or 2.31% over the last fiscal year. Of the total amount collected, 25% goes to the Weslaco Economic Development Corporation. The remainder stays in the General Fund with some of those funds being used for the operation of the library.

Operating grants for governmental activities amounted to \$273,122 in the General Fund, for public safety purposes. It is the practice of the City of Weslaco to utilize grant revenues whenever possible to improve City services and quality of life in our community.

Business-Type Activities

Business-type activities accounted for 60.58% of the City of Weslaco's net position.

Water and sewer rates remained the same as the prior year. Both services were adjusted during the prior fiscal year by a 5% reduction.

The net position of the Water and Wastewater Fund increased by \$1,080,788 from current year operations. Revenues increased by \$399,760 and operating expenses increased by \$1,569,880.

The net position of the Solid Waste Fund increased by \$28,956 from current year operations. Revenues increased by \$365,252 and expenses increased by \$257,321.

The net position of the Airport Fund increased by \$3,465,001, due to the receipt of a TxDOT grant in the amount of \$3,773,179. The Airport Fund receives revenues from fuel sales, hangar rentals, and grants. Any shortfalls are subsidized by the General Fund. Short of that grant, the Airport would have experienced an operating loss of \$508,178. The expansion project has had a detrimental effect on the operation of the Airport, in that the improvement project has forced closures of parts of the runway, and thereby affected the traffic that the Airport would normally generate.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Weslaco uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As the end of the current fiscal year, the City of Weslaco's governmental funds reported combined ending fund balances of \$15,787,726. Approximately 54% of this total amount, or \$8,523,908 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period, or restricted for debt or future capital projects.

The general fund is the chief operating fund of the City of Weslaco. At the end of the current fiscal year, the general fund's unassigned fund balance was \$8,523,908. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 38.99 percent of the total general fund expenditures, while total fund balance represents 41.29 percent of that same amount. While it is recommended that the General Fund should have an unassigned fund balance of no less than 5 to 15% of operating expenditures, the City has placed the target unassigned fund balance in the General Fund at 25%. The City had implemented a fiscal forecast model that was designed to increase the fund balance in the General Fund to 25% by the year 2015. The City reached and surpassed that goal two years early.

- The City Commission maintained the tax rate to \$0.6767 for the 2015 tax levy balance.
- The sales tax revenues increased by 2.31% over the prior year. The increase in the sales tax revenues can be attributed at least in part to retail development on the expressway.

The debt service fund has a total fund balance of \$1,112,428 after all scheduled debt service payments were made, all of which is reserved for the payment of debt service. The scheduled tax supported debt service payments for fiscal year 2015 was \$2,665,503, including interest paid of \$887,651.

Proprietary fund: The City of Weslaco's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Wastewater Fund at the end of the year amounted to \$869,537, which was a decrease of \$28,650 from last year. Although operating revenues increased by \$399,760, operating expenses increased by \$1.6M. Thus operating income decreased by \$1.2M compared to last year.

The unrestricted net position for the Solid Waste Fund amounted to \$2,268,131 at the end of the year, an increase of \$28,956 from the prior year. Operating revenue saw an increase of \$365,252 from last year, while operating expenses increased by \$588,829. It should be noted that the change in net position of \$28,956 was affected by a transfer of \$750,000 to the new Capital Improvement Program fund.

The unrestricted in net position for the Airport Fund amounted to \$(322,589). Again, it is noted that the runway expansion project has caused an interruption to the normal operations of the Airport. It is anticipated that when the project is fully complete, operations will resume back to normal and fuel sales and other revenue streams should return to pre-project levels.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Weslaco's investment in capital assets for its governmental and business type activities as of September 30, 2015, amounts to \$145,615,557 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Weslaco's investment in capital assets for the current fiscal year was 8.63% (a 10.76% increase for business-type activities, and 4.78% increase for governmental activities).

Additional information on the City of Weslaco's capital assets can be found in Note E on page 64 of this report.

Long-Term Debt

At year end of the current fiscal year, the City of Weslaco had total bonded debt outstanding of \$89,085,558, including \$4,965,000 in the component unit. Of this amount \$23,633,060 comprises debt backed by the full faith and credit of the government. The remainder of the City of Weslaco's debt represents bonds secured solely by specified revenue sources (i.e., revenue bond).

The City of Weslaco currently has an "A+" rating from Standard and Poor's and Moody's recently updated the City's ratings from "A3" to an "A2" for general obligation debt. This is reflective of the rating review in February 21, 2014, by Standard & Poor's and March 25, 2015 by Moody's.

In 1995, the State Legislature enacted a 10% (of taxable valuations) debt limit rate for school districts in Texas, which has subsequently been used by municipalities as a general rule in computing debt margin. The City is currently at 15.24% of this calculated debt limit, meaning that it is well within the sustainable limit.

Additional information of the City of Weslaco's long-term debt can be found in Note F on page 66 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The employment rate for the City of Weslaco is currently 92.9%, compared to 91.6% a year ago. This rate compares to the state's average employment rate of 95.6%.
- Due to a desire by the City Commission to make the City of Weslaco more attractive to business and individuals, the adopted property tax rate was decreased from \$0.6867 to \$0.6767 per \$100 of valuation for fiscal year ending September 30, 2015. This tax rate represents the lowest tax rate in fourteen years, as well as a concerted effort on the part of the City Commission and staff to continue the downward trend on the tax rate. While the City Commission is doing their part to keep the tax rate as low as possible it is important to note that the City's tax rate is only one of six rates from all taxing entities that together make up the total tax rate for Weslaco's citizens. Weslaco's total tax rate is quite favorable when compared with other cities in the area.

Taxing Entity	<u>McAllen</u>	<u>Mission</u>	<u>Weslaco</u>	<u>Edinburg</u>	<u>Pharr</u>
<i>Population</i>	136,639	81,050	37,093	80,836	73,790
<i>Valuation</i>	\$7,920,315,405	\$3,562,331,638	\$1,419,011,740	\$3,430,152,761	\$2,282,167,892
City	\$0.4763	\$0.5188	\$0.6767	\$0.6350	\$0.6800
Drainage	0.0957	0.0957	0.0957	0.0957	0.0957
Hidalgo County	0.5900	0.5900	0.5900	0.5900	0.5900
STC	0.1850	0.1850	0.1850	0.1850	0.1850
ISD	1.1650	1.3300	1.1397	1.2398	1.3592
STISD	0.0492	0.0492	0.0492	0.0492	0.0492
Total	\$2.5612	\$2.7687	\$2.7363	\$2.7947	\$2.9591

Note: Population figures are 2013 estimates obtained from the U.S. Census Bureau.
 Valuation represents 2014 Certified Estimate as reported by the Hidalgo County Appraisal district for the tax year 2014.
 Tax rates are for the tax year 2014 and were obtained from the Hidalgo County Appraisal District.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Weslaco's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 255 S Kansas Avenue, Weslaco, Texas 78596.

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BASIC
FINANCIAL STATEMENTS

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**CITY OF WESLACO, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 14,607,235	\$ 2,467,154	\$ 17,074,389	\$ 2,253,620
Cash and cash equivalents- restricted	1,122,595	8,642,988	9,765,583	930,383
Investments, restricted	-	-	-	695,256
Receivables, net	4,230,557	4,068,883	8,299,440	211,486
Internal balances	20,823	(20,823)	-	-
Notes receivables	-	-	-	3,419,121
Other asset- bond insurance costs	118,731	390,283	509,014	-
Inventories	34,790	239,645	274,435	-
Assets held for resale	-	-	-	82,870
Capital assets, net:				
Non-depreciable assets	8,276,910	52,289,226	60,566,136	28,758
Depreciable assets	41,716,278	43,402,204	85,118,482	2,013,866
Total assets	<u>70,127,919</u>	<u>111,479,560</u>	<u>181,607,479</u>	<u>9,635,360</u>
Deferred Outflows of Resources				
Deferred outflows related to interest rate swap	-	-	-	965
Deferred outflows related to pensions	636,909	113,642	750,551	-
Total Deferred Outflows of Resources	<u>636,909</u>	<u>113,642</u>	<u>750,551</u>	<u>965</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 70,764,828</u>	<u>\$ 111,593,202</u>	<u>\$ 182,358,030</u>	<u>\$ 9,636,325</u>
Liabilities				
Accounts payable	\$ 1,955,048	\$ 2,507,253	\$ 4,462,301	\$ 63,050
Accrued expenses	1,164,547	574,970	1,739,517	30,773
Unearned revenue	19,600	-	19,600	-
Non-current liabilities:				
Due within one year	2,482,995	3,093,424	5,576,419	974,817
Due in more than one year	29,374,587	61,346,235	90,720,822	4,335,000
Municipal net pension liability	3,097,838	552,737	3,650,575	-
Firemen's net pension liability	4,214,004	-	4,214,004	-
Derivative instrument- interest rate swap	-	-	-	965
Total Liabilities	<u>42,308,619</u>	<u>68,074,619</u>	<u>110,383,238</u>	<u>5,404,605</u>
Deferred Inflows of Resources				
Deferred inflows related to pensions	201,620	35,975	237,595	-
Total Deferred Inflows of Resources	<u>201,620</u>	<u>35,975</u>	<u>237,595</u>	<u>-</u>
Net Position				
Net investment in capital assets	20,318,359	38,975,364	59,293,723	727,507
Restricted for:				
Debt service	1,403,484	1,305,881	2,709,365	695,256
Special revenue funds	383,796	-	383,796	-
Capital projects	-	317,223	317,223	-
Unrestricted	6,148,950	2,884,140	9,033,090	2,808,957
Total Net Position	<u>28,254,589</u>	<u>43,482,608</u>	<u>71,737,197</u>	<u>4,231,720</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 70,764,828</u>	<u>\$ 111,593,202</u>	<u>\$ 182,358,030</u>	<u>\$ 9,636,325</u>

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

**CITY OF WESLACO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charge for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 7,159,359	\$ 725,949	\$ -	\$ -
Public safety	11,530,338	653,606	273,122	-
Emergency medical services	101,226	1,693,132	-	-
Public works	2,927,110	-	-	1,065,726
Culture and recreation	1,793,425	73,359	-	-
Interest on long-term debt	<u>1,009,379</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	24,520,837	3,146,046	273,122	1,065,726
Business-type activities:				
Water and Wastewater services	9,955,440	12,121,383	-	348,116
Solid waste services	4,348,050	5,225,429	-	27,327
Airport	<u>668,097</u>	<u>159,919</u>	<u>-</u>	<u>3,773,179</u>
Total business-type activities	14,971,586	17,506,731	-	4,148,622
Total primary government	<u>\$ 39,492,424</u>	<u>\$ 20,652,777</u>	<u>\$ 273,122</u>	<u>\$ 5,214,348</u>
Component Units				
Economic development services	<u>\$ 2,012,407</u>	<u>\$ 49,304</u>	<u>\$ 51,528</u>	<u>\$ -</u>

General Revenues:

Taxes:
Ad valorem
Sales
Occupancy
Franchise and other
Investment earnings
Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position at beginning of year

Prior period adjustment

Net position at beginning of year, as adjusted

Net position at end of year

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

Net (Expenses) Revenue
And Changes in Net Position

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (6,433,410)	\$ -	\$ (6,433,410)	\$ -
(10,603,610)	-	(10,603,610)	-
1,591,906	-	1,591,906	-
(1,861,384)	-	(1,861,384)	-
(1,720,066)	-	(1,720,066)	-
(1,009,379)	-	(1,009,379)	-
<u>(20,035,943)</u>	<u>-</u>	<u>(20,035,943)</u>	<u>-</u>
-	2,514,059	2,514,059	-
-	904,706	904,706	-
<u>-</u>	<u>3,265,001</u>	<u>3,265,001</u>	<u>-</u>
-	6,683,766	6,683,766	-
(20,035,943)	6,683,766	(13,352,177)	-
			(1,911,575)
10,352,897	-	10,352,897	-
8,779,266	-	8,779,266	2,926,422
384,439	-	384,439	-
1,855,156	-	1,855,156	-
31,839	1,350	33,189	103,477
232,759	-	232,759	54,358
<u>2,041,310</u>	<u>(2,041,310)</u>	<u>-</u>	<u>-</u>
<u>23,677,666</u>	<u>(2,039,960)</u>	<u>21,637,706</u>	<u>3,084,257</u>
3,641,723	4,643,806	8,285,529	1,172,682
32,612,752	38,875,768	71,488,520	4,039,550
<u>(7,999,886)</u>	<u>(36,966)</u>	<u>(8,036,852)</u>	<u>(980,512)</u>
<u>24,612,866</u>	<u>38,838,802</u>	<u>63,451,668</u>	<u>3,059,038</u>
<u>\$ 28,254,589</u>	<u>\$ 43,482,608</u>	<u>\$ 71,737,197</u>	<u>\$ 4,231,720</u>

**CITY OF WESLACO, TEXAS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2015**

	General Fund	Debt Service Fund	2013 Certificate of Obligation Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 7,676,517	\$ 1,024,137	\$ 4,108,715	\$ 1,558,026	\$ 14,367,396
Cash and cash equivalents- restricted	1,122,595	-	-	-	1,122,595
Receivables (net of allowance for uncollectibles)					
Ad valorem taxes	860,706	362,388	-	-	1,223,094
Sales taxes	816,521	-	-	-	816,521
Ambulance fees	752,391	-	-	-	752,391
Other	524,778	-	781,298	132,475	1,438,551
Due from other funds	232,343	16,959	208,056	-	457,358
Inventories	34,790	-	-	-	34,790
Total Assets	<u>\$ 12,020,641</u>	<u>\$ 1,403,484</u>	<u>\$ 5,098,069</u>	<u>\$ 1,690,502</u>	<u>\$ 20,212,696</u>
Liabilities					
Accounts payable	\$ 1,221,078	\$ -	\$ 706,150	\$ 27,820	\$ 1,955,048
Accrued salaries and payroll taxes	317,426	-	-	-	317,426
Other liabilities	525,760	-	-	-	525,760
Due to other funds	32,246	-	404,289	-	436,535
Payable from restricted assets	206,320	-	-	-	206,320
Unearned revenue	19,600	-	-	-	19,600
Total Liabilities	<u>2,322,430</u>	<u>-</u>	<u>1,110,439</u>	<u>27,820</u>	<u>3,460,689</u>
Deferred Inflows of Resources					
Unavailable revenue- ad valorem taxes	673,225	291,056	-	-	964,281
Total Deferred Inflows of Resources	<u>673,225</u>	<u>291,056</u>	<u>-</u>	<u>-</u>	<u>964,281</u>
Fund Balances					
Nonspendable	34,790	-	-	-	34,790
Restricted	466,288	1,112,428	3,987,630	412,682	5,979,028
Committed	-	-	-	-	-
Assigned	-	-	-	1,250,000	1,250,000
Unassigned	8,523,908	-	-	-	8,523,908
Total Fund Balances	<u>9,024,986</u>	<u>1,112,428</u>	<u>3,987,630</u>	<u>1,662,682</u>	<u>15,787,726</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 12,020,641</u>	<u>\$ 1,403,484</u>	<u>\$ 5,098,069</u>	<u>\$ 1,690,502</u>	<u>\$ 20,212,696</u>

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

**CITY OF WESLACO, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

	<u>Governmental Activities</u>
Total fund balance-governmental funds	\$ 15,787,726
Amounts reported for governmental activities in the statement of net position are different because:	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	964,281
Capital assets used in governmental activities are not current financial resources and therefore, are not reported in the governmental fund balance sheet. Other capital assets totaling \$2,421,419 of the Internal Service Fund are not included.	47,571,769
Interest payables on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in governmental funds balance sheet.	(115,041)
Bond insurance is the only bond issuance cost allowed after implementation of GASB Statement No 65. This is the unamortized cost of bond insurance cost paid by the City on prior bond issuances	118,731
Internal service funds are used by management to charge the cost of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the Internal Service Fund included in the governmental activities in the statement of net position.	1,351,730
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. Other current and non-current liabilities totaling \$1,309,528 of the internal service fund are not included.	(30,548,054)
Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB Statement No 68 in the amount of (\$3,097,838), a deferred resource outflows in the amount of \$636,909, and a deferred resource inflow in the amount of (\$201,620). This resulted in an increase/(decrease) in net position by (\$2,662,549)	(2,662,549)
Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of (\$4,214,004). This resulted in an increase/(decrease) in net position by (\$4,214,004)	<u>(4,214,004)</u>
Net position of governmental activities	<u>\$ 28,254,589</u>

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

**CITY OF WESLACO, TEXAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	General Fund	Debt Service Fund	2013 Certificate of Obligation Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 7,586,388	\$ 2,964,543	\$ -	\$ -	\$ 10,550,931
Nonproperty taxes	10,634,422	-	-	384,439	11,018,861
Fees and charges	3,471,864	-	-	-	3,471,864
Fines and forfeitures	523,767	-	-	-	523,767
Licenses and permits	479,501	-	-	-	479,501
Intergovernmental	273,123	-	1,065,726	-	1,338,849
Investment income	20,372	11,038	429	-	31,839
Miscellaneous	390,917	4,065	-	-	394,982
Total Revenues	<u>23,380,354</u>	<u>2,979,646</u>	<u>1,066,155</u>	<u>384,439</u>	<u>27,810,594</u>
Expenditures					
Current:					
General government	5,991,720	-	-	-	5,991,720
Public safety	10,476,065	-	-	-	10,476,065
Public works	1,790,960	-	-	-	1,790,960
Culture and recreation	1,118,457	-	-	258,094	1,376,551
Economic development	593,849	-	-	-	593,849
Capital outlay	1,243,679	-	3,449,076	-	4,692,755
Debt service:					
Principal	640,610	1,777,852	-	-	2,418,462
Interest and fees	2,382	887,651	-	-	890,033
Total Expenditures	<u>21,857,722</u>	<u>2,665,503</u>	<u>3,449,076</u>	<u>258,094</u>	<u>28,230,395</u>
Excess (deficiency) of revenues over expenditures	1,522,632	314,143	(2,382,921)	126,345	(419,801)
Other financing sources (uses):					
Capital lease proceeds	658,299	-	-	-	658,299
Transfers in	1,169,014	-	-	1,250,000	2,419,014
Transfers out	(2,460,758)	-	-	-	(2,460,758)
Total other financing sources (uses)	<u>(633,445)</u>	<u>-</u>	<u>-</u>	<u>1,250,000</u>	<u>616,555</u>
Net change in fund balances	889,187	314,143	(2,382,921)	1,376,345	196,754
Fund balances at beginning of year	7,125,040	798,285	6,370,551	4,152,110	18,445,986
Prior period adjustment	1,010,759	-	-	(3,865,773)	(2,855,014)
Fund balances at beginning of year, as adjusted	<u>8,135,799</u>	<u>798,285</u>	<u>6,370,551</u>	<u>286,337</u>	<u>15,590,972</u>
Fund balances at end of year	<u>\$ 9,024,986</u>	<u>\$ 1,112,428</u>	<u>\$ 3,987,630</u>	<u>\$ 1,662,682</u>	<u>\$ 15,787,726</u>

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

**CITY OF WESLACO, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	<u>Governmental Activities</u>
Net change in fund balances-total governmental funds	\$ 196,754
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period	2,379,272
The change in compensated absences of \$155,819 payable during the year is reported as a increase to expenditures in the statement of activities but not in the governmental funds.	(155,819)
Capital lease proceeds are recorded as other financing sources in the governmental funds while they are recorded as long term debt in the statement of net position.	(658,299)
Bond premiums, discounts and insurance are recognized in the funds in the year the bonds are sold, but they are recorded as an asset or liability and amortized over the life of the bonds in the statement of activities. This amount is net effect of these differences in the treatment of long-term debt and related items.	36,472
Some property tax will not be collected for several months after the city's fiscal year end, they are not considered "available" revenues in the governmental funds.	(198,034)
Repayment of bond, capital leases principal, and liabilities under chapter 380 agreements expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	2,418,463
Internal Service funds are used by management to charge the costs of certain activities such as insurance and fleet management, to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of amount allocated to business-type activities and depreciation.	518,373
The implementation of GASB Statement No 68 required that certain expenditures be de-expended and recorded as a deferred resource outflows. These contributions made after the measurement date of 12/31/14 caused the change in ending net position to increase in the amount of \$350,886. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$345,904). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$228,130. The result of these changes is to increase/(decrease) the change in net position by (\$223,148).	(223,148)
The City's reported Firemen's net pension expense had to be recorded. The net pension expense decreased the change in net position by (\$672,311)	<u>(672,311)</u>
Change in net position of governmental activities	<u>\$ 3,641,723</u>

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

**CITY OF WESLACO, TEXAS
 PROPRIETARY FUNDS
 COMBINING STATEMENT OF NET POSITION
 SEPTEMBER 30, 2015**

	Business-Type Activities				Governmental Activities
	Water and Wastewater Fund	Solid Waste Fund	Airport Fund	Totals	Internal Service Fund
Assets					
Current Assets					
Cash and cash equivalents	\$ 2,467,054	\$ -	\$ 100	\$ 2,467,154	\$ 239,839
Cash and cash equivalents- restricted	8,325,765	-	317,223	8,642,988	-
Accounts receivable, net of allowances for uncollectibles	3,051,684	1,000,966	16,233	4,068,883	-
Due from other funds	485,027	2,000,000	-	2,485,027	-
Inventories	189,748	-	49,897	239,645	-
Prepaid expenses	390,283	-	-	390,283	-
Total current assets	<u>14,909,561</u>	<u>3,000,966</u>	<u>383,453</u>	<u>18,293,980</u>	<u>239,839</u>
Non-current assets					
Land	665,175	421,247	1,465,448	2,551,870	-
Buildings	362,324	668,781	648,541	1,679,646	-
Equipment	6,253,953	1,908,927	525,658	8,688,538	5,071,598
Improvements	-	-	-	-	70,864
Infrastructure	64,899,591	64,461	4,678,526	69,642,578	-
Construction-in-progress	44,394,258	-	5,343,098	49,737,356	-
	<u>116,575,301</u>	<u>3,063,416</u>	<u>12,661,271</u>	<u>132,299,988</u>	<u>5,142,462</u>
Accumulated depreciation	<u>(30,057,842)</u>	<u>(2,522,536)</u>	<u>(4,028,180)</u>	<u>(36,608,558)</u>	<u>(2,721,043)</u>
Total non-current assets, net	<u>86,517,459</u>	<u>540,880</u>	<u>8,633,091</u>	<u>95,691,430</u>	<u>2,421,419</u>
Total assets	101,427,020	3,541,846	9,016,544	113,985,410	2,661,258
Deferred outflows of resources					
Deferred outflows related to pensions	<u>101,095</u>	<u>1,362</u>	<u>11,185</u>	<u>113,642</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 101,528,115</u>	<u>\$ 3,543,208</u>	<u>\$ 9,027,729</u>	<u>\$ 114,099,052</u>	<u>\$ 2,661,258</u>

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

**CITY OF WESLACO, TEXAS
 PROPRIETARY FUNDS
 COMBINING STATEMENT OF NET POSITION - CONTINUED
 SEPTEMBER 30, 2015**

	Business-Type Activities			Governmental Activities	
	Water and Wastewater Fund	Solid Waste Fund	Airport Fund	Totals	Internal Service Fund
Liabilities					
Current Liabilities:					
Accounts payable	\$ 2,432,926	\$ 63,817	\$ 10,510	\$ 2,507,253	\$ -
Accrued salaries and other liabilities	229,257	-	7,597	236,854	-
Due to other funds	2,211,369	87,035	207,446	2,505,850	-
Current portion of long term debt	3,079,975	1,798	11,651	3,093,424	392,567
Accrued interest on bonds	338,116	-	-	338,116	-
Total current liabilities	<u>8,291,643</u>	<u>152,650</u>	<u>237,204</u>	<u>8,681,497</u>	<u>392,567</u>
Noncurrent liabilities:					
Compensated absences	42,243	-	104,858	147,101	-
Customer deposits	1,011,949	-	-	1,011,949	-
Revenue bonds payable, net of unamortized premiums	59,612,693	-	-	59,612,693	-
Note payable	-	-	-	-	916,961
Landfill closure	-	574,492	-	574,492	-
Net pension liability	491,712	6,624	54,401	552,737	-
Total noncurrent liabilities	<u>61,158,597</u>	<u>581,116</u>	<u>159,259</u>	<u>61,898,972</u>	<u>916,961</u>
Total liabilities	69,450,240	733,766	396,463	70,580,469	1,309,528
Deferred inflows of resources					
Deferred inflows related to pensions	32,003	431	3,541	35,975	-
Net Position					
Net investment of capital assets	29,801,393	540,880	8,633,091	38,975,364	1,111,891
Restricted for:					
Revenue bond retirement	1,305,881	-	-	1,305,881	-
Construction	-	-	317,223	317,223	-
Unrestricted	938,598	2,268,131	(322,589)	2,884,140	239,839
Total net position	<u>32,045,872</u>	<u>2,809,011</u>	<u>8,627,725</u>	<u>43,482,608</u>	<u>1,351,730</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 101,528,115</u>	<u>\$ 3,543,208</u>	<u>\$ 9,027,729</u>	<u>\$ 114,099,052</u>	<u>\$ 2,661,258</u>

**CITY OF WESLACO, TEXAS
 PROPRIETARY FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	Business Type Activities				Governmental Activities
	Water and Wastewater Fund	Solid Waste Fund	Airport Fund	Total	Internal Service Fund
Operating Revenues:					
Water services	\$ 6,505,602	\$ -	\$ -	\$ 6,505,602	\$ -
Sewer services	4,614,508	-	-	4,614,508	-
Charges for services	-	5,142,108	159,666	5,301,774	-
Miscellaneous	297,287	83,321	253	380,861	-
Total operating revenues	<u>11,417,397</u>	<u>5,225,429</u>	<u>159,919</u>	<u>16,802,745</u>	<u>-</u>
Operating Expenses:					
Personal services	1,711,225	32,526	183,280	1,927,031	-
Other services and charges	2,145,193	52,713	207,004	2,404,910	38,455
Supplies	818,568	7,074	82,430	908,072	-
Contractual services	1,378,560	4,338,264	-	5,716,824	-
Depreciation	2,549,266	43,223	195,383	2,787,872	-
Total operating expenses	<u>8,602,812</u>	<u>4,473,800</u>	<u>668,097</u>	<u>13,744,709</u>	<u>38,455</u>
Operating income (loss)	2,814,585	751,629	(508,178)	3,058,036	(38,455)
Non-operating revenues (expenses)					
Investment income	1,350	-	-	1,350	-
Capital Improvement fees	703,986	-	-	703,986	-
Capital grants	348,116	27,327	3,773,179	4,148,622	-
Interest expense	(2,718,188)	-	-	(2,718,188)	(34,916)
Total non-operating revenues (expenses)	<u>(1,664,736)</u>	<u>27,327</u>	<u>3,773,179</u>	<u>2,135,770</u>	<u>(34,916)</u>
Income (loss) before transfers	1,149,849	778,956	3,265,001	5,193,806	(73,371)
Transfers in (out)					
Transfers in	-	-	200,000	200,000	591,744
Transfers out	-	(750,000)	-	(750,000)	-
Total transfers	<u>-</u>	<u>(750,000)</u>	<u>200,000</u>	<u>(550,000)</u>	<u>591,744</u>
Change in net position	1,149,849	28,956	3,465,001	4,643,806	518,373
Net position- beginning	31,283,224	2,454,503	5,138,041	38,875,768	833,357
Prior period adjustment	<u>(387,201)</u>	<u>325,552</u>	<u>24,683</u>	<u>(36,966)</u>	<u>-</u>
Net position- beginning, as adjusted	<u>30,896,023</u>	<u>2,780,055</u>	<u>5,162,724</u>	<u>38,838,802</u>	<u>833,357</u>
Net position- ending	<u>\$ 32,045,872</u>	<u>\$ 2,809,011</u>	<u>\$ 8,627,725</u>	<u>\$ 43,482,608</u>	<u>\$ 1,351,730</u>

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

CITY OF WESLACO, TEXAS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities				Governmental Activities
	Water and Wastewater Fund	Solid Waste Fund	Airport Fund	Total	Internal Service Fund
Cash flows from operating activities					
Cash received from customers	\$ 11,693,516	\$ 3,003,513	\$ 170,308	\$ 14,867,337	\$ -
Payments to suppliers	(4,161,743)	(4,310,523)	(298,545)	(8,770,811)	(442,892)
Payments to employees	(1,702,263)	(32,526)	(179,604)	(1,914,393)	-
Net cash provided (used) by operating activities	5,829,510	(1,339,536)	(307,841)	4,182,133	(442,892)
Cash flows from noncapital financing activities					
Transfers from other funds	-	-	200,000	200,000	591,744
Transfers to other funds	-	(750,000)	-	(750,000)	-
Net cash provided (used) by noncapital financing activities	-	(750,000)	200,000	(550,000)	591,744
Cash flows from capital and related financing activities					
Acquisition of capital assets	(7,982,656)	(22,000)	(297,815)	(8,302,471)	-
Interest paid on bonds	(2,766,084)	-	-	(2,766,084)	-
Interest paid on notes	-	-	-	-	(34,915)
Retirement of notes	-	-	-	-	(383,649)
Retirement of bonds	(2,577,489)	-	-	(2,577,489)	-
Landfill closure costs	-	(45,522)	-	(45,522)	-
Net cash provided (used) by capital and related financing activities	(13,326,229)	(67,522)	(297,815)	(13,691,566)	(418,564)
Cash flow from investing activities:					
Interest on cash and investments	1,350	-	-	1,350	-
Net cash provided (used) by investing activities	1,350	-	-	1,350	-
Net increase (decrease) in cash and cash equivalents	(7,495,369)	(2,157,058)	(405,656)	(10,058,083)	(269,712)
Cash and cash equivalents, beginning of year	18,288,188	2,157,058	722,979	21,168,225	509,551
Cash and cash equivalents, end of year	<u>\$ 10,792,819</u>	<u>\$ -</u>	<u>\$ 317,323</u>	<u>\$ 11,110,142</u>	<u>\$ 239,839</u>
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	\$ 2,814,585	\$ 751,629	\$ (508,178)	\$ 3,058,036	\$ (38,455)
Adjustments to reconcile income (loss) from operations to net cash from operating activities					
Other nonoperating income	1,052,102	27,327	-	1,079,429	-
Depreciation	2,549,266	43,223	195,383	2,787,872	-
(Increase) decrease in accounts receivables	(874,228)	(249,721)	(5,180)	(1,129,129)	-
(Increase) decrease in inventories	(95,924)	-	(12,014)	(107,938)	-
(Increase) decrease in prepaids	25,130	-	-	25,130	-
(Increase) decrease in due from other funds	(80,590)	(2,000,000)	-	(2,080,590)	-
(Increase) decrease in deferred outflows related to pensions	(46,191)	(622)	(5,111)	(51,924)	-
Decrease (increase) in accounts payable	(1,885,181)	494	(8,491)	(1,893,178)	-
Decrease (increase) in accrued expenses	48,849	-	2,831	51,680	-
Decrease (increase) in due to other funds	2,205,615	87,035	11,394	2,304,044	(404,437)
Decrease (increase) in customer deposits	74,355	-	-	74,355	-
Decrease (increase) in compensated absences	(39,888)	-	12,495	(27,393)	-
Decrease (increase) in net pension liability	49,607	668	5,489	55,764	-
Decrease (increase) in deferred inflows related to pensions	32,003	431	3,541	35,975	-
Total adjustments	<u>3,014,925</u>	<u>(2,091,165)</u>	<u>200,337</u>	<u>1,124,097</u>	<u>(404,437)</u>
Net cash provided (used) by operations	\$ 5,829,510	\$ (1,339,536)	\$ (307,841)	\$ 4,182,133	\$ (442,892)
<i>Supplemental disclosure of noncash activities</i>					
Capital grants from Txdot	\$ -	\$ -	\$ 3,773,179	\$ 3,773,179	\$ -

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

**CITY OF WESLACO, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2015**

	Assets	Pension Trust fund	Private-purpose Trust fund
		Firemen's Relief and Retirement	Marion Booth Endowment Fund
Current Assets			
Cash		\$ 147,345	\$ 489,786
Investments, at fair value			
Equities		5,743,723	-
Corporate bonds		553,252	-
Money market deposits		221,911	-
Money market mutual funds		177,758	-
Municipal bonds		<u>1,453,238</u>	<u>-</u>
Total investments		8,149,882	-
Accounts receivable		<u>-</u>	<u>-</u>
	Total Assets	<u>\$ 8,297,227</u>	<u>\$ 489,786</u>
Liabilities and Net Position			
Liabilities			
Accounts payable		\$ 42,018	\$ -
Net Position			
Net position held in trust for pension benefits and other purposes		<u>8,255,209</u>	<u>489,786</u>
Total Liabilities and Net Position		<u>\$ 8,297,227</u>	<u>\$ 489,786</u>

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

**CITY OF WESLACO, TEXAS
FIREMEN'S RETIREMENT FUND
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

	<u>Pension Trust fund</u>	<u>Private-purpose Trust fund</u>
	<u>Firemen's Relief and Retirement</u>	<u>Marion Booth Endowment Fund</u>
Additions		
Contributions		
Employer contributions	\$ 394,360	\$ -
Plan member contributions	<u>388,865</u>	<u>-</u>
Total contributions	783,225	-
Investment income		
Net depreciation in fair value of investments	(259,471)	-
Interest and dividends	<u>186,034</u>	<u>3,681</u>
	(73,437)	3,681
Less investment expense	<u>(53,761)</u>	<u>-</u>
Net investment income (loss)	<u>(127,198)</u>	<u>3,681</u>
Total additions	656,027	3,681
Deductions		
Benefits paid	457,812	-
Refunds of contributions	376,111	-
Administrative expenses	<u>85,190</u>	<u>-</u>
Total deductions	<u>919,113</u>	<u>-</u>
Net change in fiduciary net position	(263,086)	3,681
Net Position, beginning of year	8,518,295	-
Prior period adjustment	<u>-</u>	<u>486,105</u>
Net position, beginning of year, as adjusted	<u>8,518,295</u>	<u>486,105</u>
Net position, end of year	<u>\$ 8,255,209</u>	<u>\$ 489,786</u>

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

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**NOTES TO THE
FINANCIAL STATEMENTS**

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Weslaco, Texas was incorporated September 18, 1919, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, solid waste, health and social services, culture and recreation, education, public improvements, planning and zoning, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments includes those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable).

1. Financial Reporting Entity

The accompanying financial statements present the reporting entity, which consists of the primary government. Financial reporting standards also require the City of Weslaco, Texas to include, if any, legally-separate entities or organizations for which the primary government is financially accountable and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion could cause the City's basic financial statements to be misleading or incomplete.

Financial accountability exists if a primary government appoints a voting majority of an organization's governing Board and either is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

Applying these tests to other entities and activities for possible inclusion in the reporting entity, the City has determined that the Weslaco Economic Development Corporation (EDC) meets the financial accountability tests and, therefore is included as a discretely presented component unit. In prior year the City reported the EDC as a blended component unit. The prior year has been restated as further mentioned in Note T for the de-blending of the EDC. Its Board is appointed by the City Commission and the City sets expenditure caps.

The Firemen's Relief and Retirement fund is included as a pension trust fund, and the Marion Booth Endowment Fund is included as a private-purpose trust fund and are reported as fiduciary funds in the accompanying financial statements.

The City's general-purpose financial statements do not reflect the operations of the Weslaco Chamber of Commerce (WCC), Weslaco Independent School District (WISD) or Texas Municipal Retirement System (TMRS). The Weslaco Chamber of Commerce and Weslaco Independent School District are not included because they have their own elected governing boards and are independent of the City as to fiscal accountability and financial affairs. Responsibility for administration and operation of TMRS has been vested with its board of Trustees. The City has no oversight responsibility regarding TMRS. Also excluded from the reporting entity is the Housing Authority of Weslaco. The Housing Authority is governed by a board of five commissioners, administers 180 units of low-income housing and also operates 328 units of existing Section 8 Housing Voucher Choice Program.

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Based on the following criteria, the City determined that the actual degree of oversight is remote, and the financial operations and status of the Housing Authority is not integral to that of the City, thus the relationship of the Housing Authority to the City is best described in a note to the financial statements as follows:

a. Ability to Exercise Oversight Responsibility

The City of Weslaco appoints members to the Authority and has a moral responsibility for debts. The City of Weslaco has little influence in the hiring of management and clerical staff, reviewing and approving budgets, adjustments and amendments, signing contracts, exercising control over facilities and property, and determining the outcome or disposition of matters affecting the service tenants of the Housing Authority received.

b. Scope of Service

The Housing authority provides housing for the residents of the City of Weslaco. The Housing Authority operates within the city limits.

c. Special Financing Relationships

The City of Weslaco and the Housing Authority are two separate legal entities and the financial operations and status of each is not integral.

The five non-profit corporation's referred to in Note N are not part of the City's reporting entity because the City exercises no oversight responsibility and has no accountability for fiscal matters. The significant factors for exclusion are: the appointed board members have no continuing relationships with the City; the board designates management; the City cannot significantly influence the corporations' operations; the Board has sole budgetary authority; the corporations' control surpluses and deficits, the City is not legally or morally obligated for the corporations' debt and the corporation's are responsible for fiscal management and fee determination. In this situation, the preceding factors are conclusive in contrast to the following factors indicating inclusion. The corporation's operate within the boundaries of the City and the City approves bonds for issuance.

2. *Basis of Presentation*

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of inter-fund activity, within the governmental activities and business-type activities columns, has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on a significant extent on fees and charges for support.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City reports the General, Debt Service, and 2013 Certificates of Obligation Construction Fund as major governmental funds.

General Fund

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Fund

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to finance specific activities.

Debt Service Fund

Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted to signify the amounts that are restricted exclusively for debt service expenditures. The Debt Service Fund is reported as a major governmental fund.

Capital Projects Fund

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The 2013 Certificates of Obligation Construction Fund is reported as a major capital projects fund.

Proprietary Funds

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Water and Wastewater Fund

Water and Wastewater Fund is used to account for the provision of water and wastewater services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and wastewater system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and wastewater debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Solid Waste Fund

Solid Waste Fund is used to account for operations of solid waste collection and disposal services. All costs are financed through charges to solid waste customers.

Airport Fund

Airport Fund accounts for the provision of airport facilities to area residents. All activities necessary to provide such services are accounted for in this fund. The fund is financed primarily by the City of Weslaco operating grants, hangar rentals and tie-down fees.

Additionally, the City reports the Internal Service Fund which is used to account for the capital acquisitions and leasing services provided to departments of the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. *Measurement Focus/Basis of Accounting and Financial Statement Presentation*

Measurement focus refers to what is being measured: basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position.

Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and wastewater services which are accrued. Expenses are recognized at the time the liability is incurred.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental fund financial statements are reported using the current financial resources measurements focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

4. *New Accounting Standards Adopted*

In June 2012, the GASB issued Statement No. 68, “Accounting and Financial Reporting for Pensions”. This statement will improve financial reporting of public employee pensions by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has implemented GASB No. 68 in this annual report. Pension information is disclosed in Notes J and K and the impact on beginning net position recognized as a prior period adjustment is disclosed in Note T.

In November 2013, the GASB issued Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date”. This statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City has implemented GASB No. 71 in this annual report. Pension information related to this Statement is disclosed in Notes J and K.

5. *Budgetary Control*

1. The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year after which the City Manager subsequently submits a budget of estimated expenditures and revenues to the City Commission by August 1. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
2. Upon receipt of the budget estimates, the Commission holds public hearing on the proposed budget. Information about the Budget Ordinance is then published in the official newspaper of the City.
3. Prior to October 1, the budgets for the General, Special Revenue, and Debt Service Funds are legally enacted through passage of an ordinance.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. At least ten days prior to October 1, the budget is legally enacted through passage of an ordinance. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission, even though the City Charter does not impose any restrictions or limit expenditures to amounts appropriated.
5. Formal budgetary integration is employed as a management control device during the year for the General, Hotel/Motel Tax - Special Revenue, and Debt Service Funds.

Formal budgetary integration is not employed for Capital Project Funds because effective budgetary control is alternatively achieved through the life of the respective project and not on an annual basis.

6. Budgets for the General, Hotel/Motel Tax - Special Revenue and Debt Service Funds are adopted on a basis consistent with Generally Accepting Accounting Principles (GAAP).
7. Current year appropriations lapse at year-end.

Budgeted amounts are as originally adopted or as amended by the City Commission through September 30, 2015. Subsequent to year-end management and the City Commission amended the September 30, 2015 budget authorizing the reallocation of expenses and related budget transfers relative to the Interest and Sinking Fund, Water and Wastewater Fund and General Fund. All budget appropriations lapse at year-end except for the Community Development Block Grants (CDBG). Although they are appropriated annually, unspent appropriations in the Community Development Block Grants (CDBG) are appropriated under the same objects of expenditures in subsequent grant periods.

6. *Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance*

a. *Cash and Cash Investments*

Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers cash and equivalents to include all highly liquid investments with maturity of three months or less when purchased.

Cash of all funds, including restricted cash is 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 pooled Cash and Cash investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered to be "cash equivalents".

Negative balances incurred in pooled cash at year-end are treated as inter-fund receivables of the General Fund and inter-fund payables of the deficit fund.

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments

In accordance with provisions of GASB Statement No.31, “Accounting and Financial Reporting for Certain Investments and External Investment Pools,” investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in current transactions between willing parties.

Interest Rate Risk

The City’s investment policy limits investment maturities to no more than two years from the date of purchase.

b. Prepaid Items and Inventories

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the prepaid items have been recorded as un-spensible to signify that a portion of fund balance is not available for other subsequent expenditures.

c. Inventories

The inventories in the Governmental Funds and Proprietary Funds consist of supplies and are recorded at the lower of weighted average cost or market.

d. Inter-fund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “Internal balances”.

e. Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Proprietary Funds an indirect cost percentage of information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations.

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Assets capitalized, not including infrastructure assets, have an original cost of \$1,000 or more and over one year of useful life. Infrastructure assets, capitalized have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20 - 50 years
Water and Wastewater System	30 - 50 years
Infrastructure	20 - 35 years
Machinery and Equipment	5 - 10 years
Improvements	20 years

g. Compensated Absences

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to 30 days except vacation leave accrued prior to December 1990, which shall be refunded in full.

Non-Civil Service employees who were hired before October 1, 2008 and who have completed ten years of employment are entitled to be paid up to 30 days of accumulated sick leave, 60 days for those employees with 11 to 20 years and 90 days for 21 years or more and any accumulated vacation up to 30 days, upon termination. Employees who were hired after October 1, 2009 are entitled to be paid a maximum of \$1,000 for both sick and vacation upon termination.

Civil Service employees hired are entitled to be paid any accumulated vacation, but must complete five years of employment with the City to be entitled to be paid up to 90 days of accumulated sick leave upon termination. Sick leave in excess of maximum limits is not paid upon termination, but will be paid only upon illness while in the employ of the City.

h. Deferred Outflows and Inflows of Resources

In addition to assets, the combined balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflow of resources related to pensions as further described in Note M. In addition, in accordance with *GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments*, derivative instruments are reported in the statement of net position at fair value, as either assets or liabilities. Changes in fair value of hedging derivative instruments are recognized through the application of hedge accounting as either deferred inflows or outflows in the statement of net position, as an offset to the related hedging derivative instrument. The City reports deferred outflows of resources related to an interest rate swap agreement for its component unit.

In the addition to liabilities, the combined balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City reports *unavailable revenue*, as a deferred inflow of resources in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also reports deferred inflows of resources related to pension as further described in Note M.

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

i. Fund Balance Policies

In accordance with GASB statement No. 54, the City's policy provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories.

In addition to the nonspendable fund balance, the City's policy has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the City from its highest level of decision making authority. The responsibility to commit funds rests with the Commissioners. Committed amounts cannot be used for any other purpose unless the Commission authorizes it.
- Assigned: fund balances that contain self-imposed constraints of the City to be used for a particular purpose. The responsibility to assign funds rests with the City Manager.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

Fund balance, reported in governmental funds, which has some level of constraint placed on it, is classified as non-spendable, restricted, committed, or assigned. The amount remaining, which can be spent for any lawful purpose is classified as unassigned. Amounts classified as restricted have constraints placed on the use by law, regulations of other governments, creditors, grantors or be enabling legislation.

Those classified as committed are constrained by the City Commission through an ordinance for specific purposes, but are neither restricted nor committed. Reversing a commitment would require City Commission approval through an ordinance. Non-spendable are amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

j. Net Position

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

k. Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

l. Reclassification

The financial statements for the fiscal year ended September 30, 2014 have been reclassified to conform with the presentation of the financial statements for the fiscal year ended September 30, 2015.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. *Budgetary Information*

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and the Water, Sewer (Utility) Fund. Formal budgetary integration is employed as a management control device during the year for the General and Debt Service, as well as for the Water, Sewer (Utility) Fund.

Unused appropriations of the annually budgeted funds lapse at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Budgetary data for Capital Project Funds are budgeted over the life of the respective project and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements.

Revisions that alter total expenditures within a department must be approved by the City Commission. Therefore, the legal level of budgetary responsibility is by the departmental basis.

City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. City Management submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating fund includes proposed expenditures and the means of financing them. Public hearings are conducted to City Hall to obtain taxpayer comments. Prior to October 1, the budget is adopted by the City Commission.

Expenditures may not legally exceed budgeted appropriations at the department level. During the year, several supplementary appropriations were necessary.

2. *Expenditures over Appropriations*

At September 30, 2015, expenditures in the following departments exceeded appropriations:

General government	(\$265,860)
Public safety	(\$125,424)
Capitalized items	(\$368,159)
Interest and fees	(\$2,382)

General Government- reduction of pending litigation and settlement offers were not budgeted during the current fiscal year. In addition, the contractual obligation to pay invoices regarding the Valley Nature Center was never budgeted or amended during the current fiscal year.

Public Safety- high amounts of overtime of public safety officers were approved during the current year. However, the budget was never adjusted to account for the additional wages.

Capitalized items- multiple capitalized expenditures were authorized to ensure all departments were adequately supplied with tools and equipment needed to address multiple problem areas in the City. The additional capitalized expenditures were not reflected in the original or amended budget.

Interest and fees- interest expense associated with capital leases entered into during the current year were not budgeted for.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE C – DEPOSITS AND INVESTMENTS

It is the City’s policy, as well as a requirement in its Depository agreement, for deposits plus accrued interest thereon to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. The City’s deposits, including certificates of deposit, were fully insured or collateralized as required by the state statutes at September 30, 2015. At year-end, the respective bank balance totaled \$17,036,208. Of the total bank balance, \$500,000 was covered by Federal Depository Insurance Corporation (FDIC). The remainder was covered by collateral with a value of \$31,000,000. The collateral was held at third party banks (safekeeping banks) in the City’s name under a joint safekeeping agreement between various banks and the City.

Investments

State statutes, city bond ordinances, city resolutions, and an investment policy adopted by the City Commission authorize the City’s investments. The City is authorized to invest in obligations of the United States of America, its agencies and instrumentalities, direct obligations of the State of Texas and agencies thereof, obligations of the states (agencies thereof, counties, cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating equivalent), certificates of deposit of state and national banks domiciled in Texas, fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged with a third party, joint pools of political subdivisions in the State of Texas which invest in instruments and follow practices allowed by law, and commercial paper with a 270 day limit and an A1P1 rating by two rating agencies.

All pledged securities held at September 30, 2015, were insured or registered, or were held by the City or its agent in the City’s name.

Fair Values of Financial Instruments

The following methods of assumptions were used by the City in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents, short-term investments, and promises to give are due in less than one year. The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

A reconciliation of cash and investments follows:

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Cash	\$14,607,235	\$ 2,467,154	\$17,074,389	\$2,253,620
Restricted cash	<u>1,122,595</u>	<u>8,642,988</u>	<u>9,765,583</u>	<u>930,383</u>
	<u>\$15,729,830</u>	<u>\$11,110,142</u>	<u>\$26,839,972</u>	<u>\$3,184,003</u>
Investments				
Certificates of deposit	\$ -	\$ -	\$ -	\$ 695,256
Land available for sale	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,870</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 778,126</u>

See Note F for components of cash restrictions.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE C – DEPOSITS AND INVESTMENTS - Continued

Firemen’s Relief and Retirement Fund Investments

The Firemen’s Relief and Retirement Fund Investments are recorded at fair value as of September 30, 2015. The composition of these investments is as follows:

	<u>Fair Value</u>
Equities	\$5,743,723
Fixed income	
Mutual funds	177,758
Money market deposits	221,911
Municipal bonds	1,453,238
Corporate bonds	<u>553,252</u>
Total fixed income	<u>2,406,159</u>
 Total investments	 8,149,882
 Cash and money market funds	 <u>147,345</u>
	<u>\$8,297,227</u>

Because of the complexity of the portfolio, the Firemen’s Board of Trustees relies on its consultant to provide the necessary guidance to accomplish the Plan’s objective. The Board also understands that return objectives can be achieved while assuming market volatility. The Board is willing to forgo potential return in strong markets in return for protection against a severe decline during weak periods.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty’s trust department or agent but not in the Plan’s name.

Concentration of Credit Risk

The allocation of assets among various asset classes is set by the Board with the objective of optimizing the investment return of the Plan within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, private equity and real estate, and specialty), the Plan where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Plan.

Interest Rate Risk

The Plan invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest. Instruments may have an investment grade or noninvestment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Plan’s Investment Policy.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE C – DEPOSITS AND INVESTMENTS - Continued

Firemen's Relief and Retirement Fund Investments - Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation (depreciation) in fair value of investments.

NOTE D - RECEIVABLES

Receivables at September 30, 2015, consist of the following:

	Primary Government									Component Unit	
	Governmental					Business-type					
	General Fund	Debt Service Fund	2013 Certificate of Obligation Construction Fund	Non-major Funds	Total	Water and Wastewater	Solid Waste	Airport Fund	Total		Total Primary Government
Property taxes	\$1,196,712	\$498,231	\$ -	\$ 498,231	\$1,694,943	\$ -	\$ -	\$ -	\$ -	\$1,694,943	\$ -
Hotel/Motel taxes	-	-	-	132,475	132,475	-	-	-	-	132,475	-
Trade	412,371	-	-	-	412,371	4,016,157	1,513,220	16,233	5,545,610	5,957,981	7,356
Ambulance fees	1,964,032	-	-	-	1,964,032	-	-	-	-	1,964,032	-
Sales taxes	816,521	-	-	-	816,521	-	-	-	-	816,521	204,130
Other governments	<u>136,406</u>	<u>-</u>	<u>781,298</u>	<u>781,298</u>	<u>917,704</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>917,704</u>	<u>-</u>
Gross receivables	4,526,042	498,231	781,298	1,412,004	5,938,046	4,016,157	1,513,220	16,233	5,545,610	11,483,656	211,486
Less allowance for uncollectibles	<u>(1,571,646)</u>	<u>(135,843)</u>	<u>-</u>	<u>(135,843)</u>	<u>(1,707,489)</u>	<u>(964,473)</u>	<u>(512,254)</u>	<u>-</u>	<u>(1,476,727)</u>	<u>(3,184,216)</u>	<u>-</u>
Net total receivable	<u>\$2,954,396</u>	<u>\$362,388</u>	<u>\$781,298</u>	<u>\$1,276,161</u>	<u>\$4,230,557</u>	<u>\$3,051,684</u>	<u>\$1,000,966</u>	<u>\$16,233</u>	<u>\$4,068,883</u>	<u>\$ 8,299,440</u>	<u>\$211,486</u>

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE D - RECEIVABLES - Continued

Property tax revenues are recognized when they become available in the fund statements. Available includes those property tax receivables expected to be collected within sixty days after year end.

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied as of October 1. The county appraisal district certifies the tax roll by July 25th. This tax roll is used by the City to adopt a tax rate by September 1st or soon thereafter. The tax bills are mailed on October 1 or soon thereafter and are due and payable upon receipt. The billings become delinquent as of February 1 of the following calendar year and penalties and interest may be assessed by the City.

As an inducement to expand their business operations to the City's Industrial Park, the Economic Development Corporation of Weslaco (EDC), accepted notes from various businesses. These notes are for cash loans, and sale of industrial park lots. The loans carry various credits incentives up to the amounts of the loans and sometimes beyond the initial loans. The credits vary by individual entities. The credits involve construction of buildings, leasing of existing properties at the industrial park, employing local residents and the purchase of goods and services from merchants in the local area. All notes receivable carry incentives to the extent of the note receivable balance.

The following is a summary of notes receivable payable to the EDC at September 30, 2015:

Loan to AC/DC Signs	\$ 68,067
Loan to Dos Logistics	95,000
Loan to Mid Valley Trailer	116,750
Loan to Downtown Properties	101,515
Loan to CiL Properties	158,633
Promissory note from LRGVDC (building sale)	1,508,048
Promissory note from SDI Weslaco Holdings, Inc.	<u>1,371,108</u>
Total notes receivable	<u>\$3,419,121</u>

Total note receivable from SDI Weslaco Holdings, LLC (SDI) was \$2,300,000 at 8% interest rate. This note is secured by a Chapter 380 Economic Development Agreement between the City of Weslaco, Texas and SDI. SDI has assigned the annual payments due from the City to the Economic Development Corporation, (EDC) of Weslaco, Texas until the note is paid in full. The note is payable in annual payments, until March 1, 2030. The 380 Agreement was to facilitate the construction of infrastructure improvements for a commercial development. The EDC spurred the development by advancing \$2,300,000 of the \$3,300,000 project. In the current year, the City of Weslaco paid \$222,050 under the 380 Agreement.

Notes with Economic Incentives

The economic incentive portion of the note receivable balances have been recognized as expenditures in current year operations, as well as the long-term note receivable advance. As the entities earn their incentives, the note balances will be reduced accordingly, with an equal offset to unavailable revenue.

That is to control compliance with the agreements. The long-term note receivable principal payments are recognized as revenues, with equal off-set to unavailable revenue. Note balances had equal unavailable revenue at September 30, 2015.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE E – CAPITAL ASSETS

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

	<u>Restated Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 3,925,705	\$ -	\$ -	\$ 3,925,705
Construction-in-progress	<u>761,652</u>	<u>3,589,553</u>	<u>-</u>	<u>4,351,205</u>
Total capital assets, not being depreciated	4,687,357	3,589,553	-	8,276,910
Capital assets being depreciated				
Buildings	17,371,818	-	-	17,371,818
Equipment	12,962,425	987,663	-	13,950,088
Improvements	37,068,147	120,538	-	37,188,685
380 Agreements Infrastructure	<u>7,629,307</u>	<u>-</u>	<u>-</u>	<u>7,629,307</u>
	75,031,697	1,108,201	-	76,139,898
Less accumulated depreciation for				
Buildings	6,078,051	434,295	-	6,512,346
Equipment	5,965,499	678,147	-	6,643,646
Improvements	<u>20,061,588</u>	<u>1,206,040</u>	<u>-</u>	<u>21,267,628</u>
	<u>32,105,138</u>	<u>2,318,482</u>	<u>-</u>	<u>34,423,620</u>
Total capital assets being depreciated, net	<u>42,926,559</u>	<u>(1,210,281)</u>	<u>-</u>	<u>41,716,278</u>
Governmental activities, capital assets, net	<u>\$47,613,916</u>	<u>\$ 2,379,272</u>	<u>\$ -</u>	<u>\$49,993,188</u>

Depreciation expenses was charged as direct expense to programs of the primary government as follows:

Governmental activities	
General government	\$ 455,404
Public Safety	258,621
Emergency Medical Services	84,557
Public Works	1,102,375
Culture and Recreation	<u>417,525</u>
	<u>\$2,318,482</u>

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE E – CAPITAL ASSETS - Continued

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Reclassification</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities					
Capital assets not being depreciated					
Land	\$ 2,551,870	\$ -	\$ -	\$ -	\$ 2,551,870
Construction in progress	<u>38,554,647</u>	<u>11,616,777</u>	<u>(434,068)</u>	<u>-</u>	<u>49,737,356</u>
Total capital assets not being depreciated	41,106,517	11,616,777	(434,068)	-	52,289,226
Capital assets being depreciated					
Buildings	1,010,863	-	668,781	-	1,679,644
Equipment	8,327,098	378,019	-	(16,580)	8,688,537
Improvements	<u>69,796,441</u>	<u>80,850</u>	<u>(234,713)</u>	<u>-</u>	<u>69,642,578</u>
Total capital assets being depreciated	79,134,402	458,869	434,068	(16,580)	80,010,759
Less accumulated depreciation for					
Building	592,878	22,731	668,781	-	1,284,390
Equipment	6,925,193	330,013	48,175	(16,580)	7,286,801
Improvements	<u>26,319,196</u>	<u>2,435,124</u>	<u>(716,956)</u>	<u>-</u>	<u>28,037,364</u>
Total accumulated depreciation	<u>33,837,267</u>	<u>2,787,868</u>	<u>-</u>	<u>(16,580)</u>	<u>36,608,555</u>
Total capital asset being depreciated, net	<u>45,297,135</u>	<u>(2,328,999)</u>	<u>434,068</u>	<u>-</u>	<u>43,402,204</u>
Business-type activities capital assets, net	<u>\$86,403,652</u>	<u>\$ 9,287,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$95,691,430</u>

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

Business-type activities	
Water and wastewater	\$2,549,266
Solid waste	43,219
Airport	<u>195,383</u>
Total depreciation expense – business-type activities	<u>\$2,787,868</u>

Component Unit	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 19,709	\$ -	\$ -	\$ -	\$ 19,709
Construction in progress	<u>-</u>	<u>9,049</u>	<u>-</u>	<u>-</u>	<u>9,049</u>
	19,709	9,049	-	-	28,758
Capital assets, being depreciated:					
Buildings	2,181,286	-	-	-	2,181,286
Machinery and equipment	<u>167,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,655</u>
	2,348,941	-	-	-	2,348,941
Less accumulated depreciation	<u>264,871</u>	<u>70,204</u>	<u>-</u>	<u>-</u>	<u>335,075</u>
Total capital assets, being depreciated, net	<u>2,084,070</u>	<u>(70,204)</u>	<u>-</u>	<u>-</u>	<u>2,013,866</u>
Governmental activities, capital assets, net	<u>\$2,103,779</u>	<u>\$ (61,155)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,042,624</u>

Depreciation of \$70,204 was charged to general government functions.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE F – LONG-TERM DEBT

Business-Type Activities Long-Term Debt

\$21,871,000 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007, dated August 15, 2008, due in annual installments varying from \$40,000 to \$2,270,000, through February 15, 2027, bearing interest rates of 4.00% to 5.00%	\$19,230,000
\$1,075,082 General Obligation Refinancing Bonds, Series 2010, (Target Savings) due in annual installments varying From \$97,092 to \$138,852 through February 19, 2019 bearing interest at 3.1%	529,307
\$2,845,000 Waterworks and Sewer Systems Revenue Refunding Bond, Series 2010, due in annual installments Varying from \$375,000 to \$440,000 through December 1, 2018, bearing interest at 3.19%.	1,290,000
\$24,335,000 Tax and Revenue Certificate of Obligation, Series 2012, dated January 15, 2012, due in annual installments varying from \$1,345,000 to \$2,305,000 through February 15, 2032, bearing interest rates of 4.00% to 5.00%.	24,335,000
\$8,500,000 Tax Notes, Series 2011, dated December 28, 2011, due in annual installments from \$460,000 to \$2,000,000 through February 15, 2018, bearing interest rate of 2.75%.	6,545,000
\$9,075,000 Tax and Revenue Certificate of Obligation, Series 2014, dated March 1, 2014, due in annual installments varying from \$75,000 through \$1,355,000 through February 15, 2034.	<u>9,075,000</u>
Total Business-Type Activities Long-Term Debt	<u>\$61,004,307</u>

Governmental Activities Bonded Debt

Governmental Bonded Debt as of September 30, 2015 is as follows:

Bonds

\$6,105 Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2007, dated August 15, 2008, due in annual installments varying from \$5,000 to \$530,000, through February 15, 2027, bearing interest rates of 4.00% to 5.00%	\$ 4,900,000
\$4,064,918 General Obligation Refinancing Bond, Series 2010, (Target Savings), due in annual installments of \$367,908 to \$526,148 through February 19, 2019, bearing interest rates at 3.1%	2,006,250
\$11,915,000 Limited Tax Refunding Bonds, Series 2012, Dated August 15, 2013, due in annual installments varying from \$980,000 to \$1,470,000 through February 15, 2023, bearing interest rates of 2.00% to 3.00%.	9,665,000
\$6,750,000 Tax and Revenue Certificate of Obligation, Series 2013, dated September 19, 2013, due in annual installments varying from \$90,000 to \$570,000 through August 15, 2033, bearing interest rates of 2.00% to 5.00%.	<u>6,545,000</u>
Total Governmental Activities Bonded Debt	<u>\$23,116,250</u>

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE F – LONG-TERM DEBT - Continued

Capital Leases

\$1,975,184 Municipal lease agreement, dated December 12, 2013. The terms of the note include monthly payments of \$34,880 beginning January 14, 2014, continuing until December 14, 2019. The note was used to purchase machinery and equipment.	\$1,309,528
\$326,727 Frost Municipal lease agreement dated May 5, 2015. The terms of the capital lease include monthly payments of \$5,761 beginning June 2015. The lease was used to purchase equipment.	306,064
\$331,572 Kansas State Bank lease agreement dated September 15, 2015. The terms of the capital lease include annual payments of \$69,968 beginning January 2016. The lease was used to purchase equipment.	<u>331,572</u>
Total Governmental Activities Capital Lease Debt	<u>\$1,947,164</u>

Component Unit Long-Term Debt

Component Unit Long-Term Debt as of September 30, 2015 is as follows:

\$1,155,000 Economic Development Sales Tax Revenue Bonds, Series 2012, due in annual installments not exceeding \$130,000 beginning February 15, 2013 through August 15, 2023, interest rate of 2.60%.	\$ 950,000
\$1,090,000 Economic Development Sales Tax Revenue Bonds, Series 2011A, due in annual installments varying from \$260,000 to \$280,000 beginning February 15, 2014 through February 15, 2019, interest at 4.47%	560,000
\$1,290,000 Economic Development Sales Tax Revenue Bonds, Series 2011B, due in annual installments varying from \$150,000 to \$335,000 beginning February 15, 2017 through 2021, interest rate of 3.84%.	1,290,000
\$2,870,000 Economic Development Sales Tax Revenue Refunding Bond Series 2012, due in annual installments not Exceeding \$305,000 beginning February 15, 2013 through February 15, 2023, with interest of 3.40%.	<u>2,165,000</u>
Total Revenue Bonds	4,965,000
A note dated May 6, 2009 and payable to BBVA Compass Bank for \$1,300,000. The terms of the note include principal and interest payments ranging from \$12,000 to \$18,000 beginning June 6, 2009, continuing regularly thereafter until May 6, 2016, when the entire balance, including principal and interest will be due and payable. The interest rate is a fixed 6.25%. The note is secured by 2.900 acres owned by the Corporation. The note was used to meet its obligations under its existing SDI Weslaco Holdings, LLC. Construction Loan Agreement and Amended Development Agreement.	<u>344,817</u>
Total Component Unit Revenue Bonds and Notes Payable	<u>\$5,309,817</u>

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE F – LONG-TERM DEBT - Continued

Transactions for the year ended September 30, 2015 are summarized as follows:

	<u>Balance</u> <u>October 1</u>	<u>Issues</u> <u>or</u> <u>Additions</u>	<u>Payments</u> <u>or</u> <u>Expenditures</u>	<u>Balance</u> <u>September 30</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental Activities					
General Obligation Bonds	\$ 2,469,102	\$ -	\$ 462,852	\$ 2,006,250	\$ 474,720
Certifications of Obligation	22,425,000	-	1,315,000	21,110,000	1,370,000
Capital leases	1,693,177	658,299	404,312	1,947,164	420,000
Bond premium	563,767	-	46,957	516,810	-
380 Agreement Infrastructure	4,714,552	-	619,947	4,094,605	-
Compensated absences	2,026,934	1,088,777	932,958	2,182,753	218,275
Municipal net pension liability	2,785,305	312,533	-	3,097,838	-
Firemen's net pension liability	<u>3,541,693</u>	<u>672,311</u>	<u>-</u>	<u>4,214,004</u>	<u>-</u>
Total Governmental Activities	40,219,530	2,731,920	3,782,026	39,169,424	2,482,995
Business-Type Activities					
General Obligation Bonds	651,744	-	122,436	529,308	125,280
Revenue Bonds Payable	35,110,000	-	410,000	34,700,000	420,000
Certificate of Obligation	19,990,000	-	760,000	19,230,000	795,000
Bond discount	(16,766)	-	(1,290)	(15,476)	-
Bond premium	1,800,465	-	101,325	1,699,140	-
Tax notes	7,735,000	-	1,190,000	6,545,000	1,735,000
Compensated absences	186,145	73,323	94,223	165,245	18,144
Customer deposits	943,214	68,735	-	1,011,949	-
Landfill closure	621,812	-	47,319	574,493	-
Municipal net pension liability	<u>496,973</u>	<u>55,764</u>	<u>-</u>	<u>552,737</u>	<u>-</u>
Total Business-Type Activities	<u>67,518,587</u>	<u>197,822</u>	<u>2,724,013</u>	<u>64,992,396</u>	<u>3,093,424</u>
Total Primary Government	<u>\$107,738,117</u>	<u>\$ 2,929,742</u>	<u>\$ 6,506,039</u>	<u>\$104,161,820</u>	<u>\$ 5,576,419</u>
Component Unit					
Revenue bonds	\$ 5,570,000	\$ -	\$ 605,000	\$ 4,965,000	\$ 630,000
Notes payable	<u>495,444</u>	<u>-</u>	<u>150,627</u>	<u>344,817</u>	<u>344,817</u>
Total Component Unit	<u>\$ 6,065,444</u>	<u>\$ -</u>	<u>\$ 755,627</u>	<u>\$ 5,309,817</u>	<u>\$ 974,817</u>

General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time that taxes are levied, the rate of tax required to provide (in each year that bonds are outstanding) the funds to pay for interest and principal at maturity. The City is in compliance with this requirement.

No General Obligation Bonds or Certificates of Obligation were issued for the fiscal year ended September 30, 2015.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE F – LONG-TERM DEBT - Continued

Revenue Bonds

Water and Wastewater Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the Water and Sewer system.

The Revenue Bonds are collateralized by the revenue of the water and wastewater system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenue may then be used for any lawful purpose.

The ordinances also contain provisions which, among other items, restrict the issuance of additional Revenue Bonds unless the special fund noted above contain the required amounts and certain financial ratios are met. The City is in compliance with all significant financial requirements as of September 30, 2015.

Sales Tax Revenue Bonds are direct obligations issued on a pledge of the City's sales tax revenues allocated to the Economic Development Corporation, in accordance with state statutes.

No Revenue Bonds were issued for the fiscal year ended September 30, 2015.

Tax Notes

On March 1, 2014, the City issued the Tax and Revenue Certificate of Obligation Note, Series 2014 for \$9,075,000. The proceeds of the certificate will be used for financing, the design construction, equipping, renovation, and/or rehabilitation of the City's Waterworks and Wastewater Systems.

Defeased Bonds Outstanding

In prior years, the City issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The City has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements.

Revenue Bonds Refunding

No refunding bonds were issued for the fiscal year ended September 30, 2015.

Bond Authorized and Unissued

At September 30, 2015, the City had no General Obligations Bonds and Revenue Bonds which were authorized and unissued.

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE F – LONG-TERM DEBT - Continued

The following table summarizes the restricted cash and investments as of September 30, 2015:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Primary Government</u>	<u>Component Unit</u>
Restricted				
Cash and cash equivalents				
Cash restricted for construction	\$ 916,275	\$6,041,257	\$6,957,532	\$ 924,883
Cash restricted for PEG fee collection	206,320	-	206,320	-
Cash restricted for bond retirement	-	1,305,881	1,305,881	-
Cash restricted for customer utility deposits	-	978,627	978,627	-
Cash in escrow	-	<u>317,223</u>	<u>317,223</u>	<u>5,500</u>
Total	<u>\$1,122,595</u>	<u>\$8,642,988</u>	<u>\$9,765,583</u>	<u>\$ 930,383</u>
Investments				
Restricted for bond reserve	\$ -	\$ -	\$ -	<u>\$ 695,256</u>

Debt service requirements to maturity for governmental activities and business-type activities are as follows:

General Obligation Bonds

Year Ending September 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016	\$ 474,720	\$ 54,818	\$ 125,280	\$ 14,467	\$ 669,285
2017	494,500	39,795	130,500	10,503	675,298
2018	510,324	24,220	134,676	6,392	675,612
2019	<u>526,706</u>	<u>8,155</u>	<u>138,852</u>	<u>2,152</u>	<u>675,865</u>
Total	<u>\$2,006,250</u>	<u>\$ 126,988</u>	<u>\$ 529,308</u>	<u>\$ 33,514</u>	<u>\$2,696,060</u>

Certificate of Obligations

Year Ending September 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016	\$ 1,370,000	\$ 765,861	\$ 795,000	\$ 927,702	\$ 3,858,563
2017	1,405,000	720,492	830,000	893,668	3,849,160
2018	1,450,000	671,842	870,000	853,193	3,845,035
2019	1,500,000	619,773	1,390,000	793,868	4,303,641
2020	2,090,000	562,492	1,605,000	719,663	4,977,155
2021-2025	8,365,000	1,873,499	9,310,000	2,314,973	21,863,472
2026-2030	3,295,000	789,825	4,430,000	224,250	8,739,075
2031-2033	<u>1,635,000</u>	<u>166,000</u>	-	-	<u>1,801,000</u>
Total	<u>\$21,110,000</u>	<u>\$6,169,784</u>	<u>\$19,230,000</u>	<u>\$6,727,317</u>	<u>\$53,237,101</u>

Revenue Bonds

Year Ending September 30,	<u>Business-type Activities</u>				<u>Total</u>
	<u>Revenue Bonds</u>		<u>Tax Note</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016	\$ 420,000	\$ 1,493,933	\$1,735,000	\$ 179,987	\$ 3,828,920
2017	430,000	1,480,377	2,190,000	132,276	4,232,653
2018	440,000	1,466,500	2,620,000	72,050	4,598,550
2019	1,420,000	1,459,482	-	-	2,879,482
2020	1,465,000	1,417,632	-	-	2,882,632
2021-2025	7,995,000	6,377,964	-	-	14,372,964
2026-2030	12,950,000	4,275,414	-	-	17,225,414
2031-2034	<u>9,580,000</u>	<u>911,116</u>	-	-	<u>10,491,116</u>
Total	<u>\$34,700,000</u>	<u>\$18,882,418</u>	<u>\$6,545,000</u>	<u>\$ 384,313</u>	<u>\$60,511,731</u>

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE F – LONG-TERM DEBT – Continued

Debt service requirements to maturity for the component unit are as follows:

Year Ending September 30,	Revenue Bonds		Tax Note		Total
	Principal	Interest	Principal	Interest	
2016	\$ 630,000	\$ 222,310	\$ 344,817	\$ 12,537	\$1,209,664
2017	655,000	172,306	-	-	827,306
2018	675,000	120,344	-	-	795,344
2019	690,000	66,361	-	-	756,361
2020	720,000	30,544	-	-	750,544
2021	740,000	14,687	-	-	754,687
2022	420,000	5,005	-	-	425,005
2023	435,000	1,690	-	-	436,690
Total	<u>\$4,965,000</u>	<u>\$ 633,247</u>	<u>\$344,817</u>	<u>\$ 12,537</u>	<u>\$5,955,601</u>

The following is a schedule of the future minimum lease payments under capital leases as of September 30, 2015:

Capital Leases

Year Ending September 30,	Municipal Lease		Frost Municipal		Kansas State Bank Lease		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2016	\$ 392,567	\$ 25,998	\$ 62,921	\$ 6,212	\$ 67,338	\$ 2,630	\$ 557,666
2017	401,692	16,873	64,345	4,788	63,784	6,184	557,666
2018	411,028	7,536	65,802	3,332	65,277	4,690	557,665
2019	104,241	400	67,291	1,843	66,805	3,164	243,744
2020	-	-	45,705	385	68,368	1,600	116,058
Total	<u>\$1,309,528</u>	<u>\$ 50,807</u>	<u>\$ 306,064</u>	<u>\$ 16,560</u>	<u>\$ 331,572</u>	<u>\$ 18,268</u>	<u>\$2,032,799</u>

NOTE G - PROPERTY TAX

The State of Texas Constitution limits the City’s ad valorem tax rate for all purposes to \$2.50 per one hundred dollars of assessed valuation. Ad valorem tax revenue during the year ended September 30, 2013 was levied using a rate of \$.6867 per one hundred dollars of assessed valuation based on 100 percent of estimated market value.

Legislation has been passed by the Texas Legislature which affects the methods of property appraisal in the City. This legislation, with certain exceptions, exempts intangible personal property, household goods, and family-owned automobiles (unless specifically authorized by resolution of the governing body) from taxation. In addition, this legislation creates a “Property Tax Code” and provides, among other things, for the establishment of county appraisal districts and for a state property board.

The appraisal of property within the city is the responsibility of the Hidalgo County Tax Appraisal District.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE G - PROPERTY TAX - Continued

The Appraisal District is required under the Property Tax Code to appraise all property within the county on the basis of 100 percent of its market value. The value of real property within the Appraisal District must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The city may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on city property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate of the previous year by more than 8 percent, qualified voters of the city may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the effective tax rate.

The city bills and collects its own property taxes through a contractual agreement with the County of Hidalgo. Collections of the city taxes and remittance of them are accounted for in the County of Hidalgo Tax Collection Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables. January 1 is the assessment date. March 31 is the end of the rendition period for the Appraisal District.

By September 30, the City adopts the tax rate. On October 1 taxes are levied and payable by January 31. Property taxes attach as an enforceable lien on property as of January 1. Uncollected taxes are placed in the hands of the attorney for legal action on February 1, following year of assessment.

Property tax is levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Appraised values are established by the Appraisal Board of Review at 100% for estimated fair market value.

Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The City usually waits until after July 1 to file suits on real estate property. As of July 1, 15% collection costs may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2014, were 94.33% of the tax levy.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

The City charter of the City of Weslaco, Texas, does not provide for a debt limit, therefore, no computation can be made. However, at September 30, 2015, the City had a tax margin of \$1.8133 for every \$100 valuation based upon a maximum ad valorem tax of \$2.50 for every \$100 valuation imposed by Texas Constitutional law.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE H - INTERFUND RECEIVABLES AND PAYABLES

Inter-fund balances at September 30, 2015 consisted of the following individual fund receivables and payables:

	<u>Receivable</u>	<u>Payable</u>
Governmental Funds		
General Fund	\$ 24,897	\$ 15,287
Airport Fund	207,446	-
Debt service fund	<u>-</u>	<u>16,959</u>
	232,343	32,246
Debt Service Fund		
General Fund	<u>16,959</u>	<u>-</u>
	16,959	-
2013 Certificate of Obligation Construction Fund		
General fund	-	9,610
Water and wastewater fund	<u>208,056</u>	<u>394,679</u>
	<u>208,056</u>	<u>404,289</u>
 Total governmental funds	 <u>\$ 457,358</u>	 <u>\$ 436,535</u>
Enterprise Funds		
<i>Water and Wastewater Fund</i>		
Funds within water and wastewater fund	\$ 3,313	\$ 3,313
2013 Certificates of Obligation Construction Fund	394,679	208,056
Solid waste fund	<u>87,035</u>	<u>2,000,000</u>
	485,027	2,211,369
<i>Solid Waste Fund</i>		
Water and wastewater fund	2,000,000	87,035
<i>Airport Fund</i>		
General Fund	<u>-</u>	<u>207,446</u>
Total Enterprise Funds	<u>\$2,485,027</u>	<u>\$2,505,850</u>

NOTE I – OPERATING TRANSFERS

Operating transfers at September 30, 2015 consisted of the following:

Governmental Funds	<u>In</u>	<u>Out</u>
<i>General Fund</i>		
Funds within general fund	\$1,169,014	\$1,169,014
Capital improvement program	-	500,000
Internal Service fund	-	591,744
Airport fund	<u>-</u>	<u>200,000</u>
	1,169,014	2,460,758
<i>Other Governmental Funds</i>		
Solid waste	750,000	-
General fund	<u>500,000</u>	<u>-</u>
	<u>1,250,000</u>	<u>-</u>
Total governmental funds	<u>\$2,419,014</u>	<u>\$2,460,758</u>

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE I – OPERATING TRANSFERS - Continued

	In	Out
Enterprise Funds		
<i>Solid Water Fund</i>		
Capital Improvement Fund	\$ -	\$ 750,000
<i>Airport Fund</i>		
General Fund	<u>200,000</u>	<u>-</u>
Total enterprise funds	<u>\$ 200,000</u>	<u>\$ 750,000</u>
<i>Internal Service Fund</i>		
General Fund	<u>\$ 591,744</u>	<u>\$ -</u>

NOTE J – PENSION PLAN - TMRS

Plan Description

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

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

Benefits Provided

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

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.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE J – PENSION PLAN – TMRS - Continued

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5,0/20	60/5,0/20
Updated service credit	50% repeating transfers	50% repeating transfers
Annuity increase (to retirees)	30% of CPI repeating	30% of CPI repeating

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	145
Inactive employees entitled to but not yet receiving benefits	135
Active employees	<u>207</u>
	<u>487</u>

Contributions

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

Employees for the City of Weslaco, Texas were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.58% and 6.59% in calendar 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$562,443 and were equal to the required contributions.

Net Pension Liability

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

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

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE J – PENSION PLAN – TMRS - Continued

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:

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

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.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE J – PENSION PLAN – TMRS – Continued

Schedule of Changes in Net Pension Liability

The change in the City’s net pension liability for TMRS pension for the fiscal year ended September 30, 2015 is as follows:

	Increase (Decrease)		
	(a) Total Pension Liability	(b) Plan Fiduciary Net Position	(a) – (b) Net Pension Liability
Balance at December 31, 2013	\$36,193,584	\$32,911,306	\$3,282,278
Changes for the year			
Service cost	1,162,103	-	1,162,103
Interest	2,504,972	-	2,504,972
Change in benefit terms	-	-	-
Difference between expected/actual experience	(303,648)	-	(303,648)
Changes of assumptions	-	-	-
Contributions – employer	-	542,202	(542,202)
Contributions – employee	-	591,732	(591,732)
Net investment income	-	1,882,469	(1,882,469)
Benefit payments, including refunds of employee contributions	(1,978,636)	(1,978,636)	-
Administrative expenses	-	(19,657)	19,657
Other charges	-	(1,616)	1,616
Net changes	<u>1,384,791</u>	<u>1,016,494</u>	<u>368,297</u>
Balance at December 31, 2014	<u>\$37,578,375</u>	<u>\$33,927,800</u>	<u>\$ 3,650,575</u>

Net pension liability amounts are allocated between the governmental activities and business-type activities in the statement of net position by \$3,097,838 and \$552,737, respectively.

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 have been if it were calculated using a discount rate that is 1 percentage point lower (6.0%) or 1 percentage point higher (8.0%) than the current rate.

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City’s net pension liability	<u>\$8,478,100</u>	<u>\$3,650,575</u>	<u>\$(1,152,659)</u>

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE J – PENSION PLAN - TMRS – Continued

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 in the amount of \$811,035. At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$237,594
Changes in actuarial assumptions	-	-
Differences between projected and actual investment earnings (net of current year amortization)	337,058	-
Contributions subsequent to the measurement date	<u>413,493</u>	<u>-</u>
Total	<u>\$750,551</u>	<u>\$237,594</u>

Deferred outflows/inflows of resources related to pensions are allocated between the governmental activities and business-type activities in the statement of net position. Please see Note M for the allocation of deferred outflows/inflows of resources related to pensions.

\$413,493 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:

	<u>City</u>
Year Ended December 31,	
2015	\$(18,210)
2016	(18,210)
2017	(18,210)
2018	(44,834)

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE K – FIREMEN’S PENSION PLAN

Plan Description

The Board of Trustees of the Weslaco Firemen’s Relief and Retirement Fund is the administrator of a single-employer defined benefit pension plan. The Firemen’s Relief and Retirement Fund is considered part of the City of Weslaco’s financial reporting entity and is included in the City’s financial reports as a pension trust fund.

A stand-alone report for the Firemen’s Relief and Retirement fund is publicly available at City Hall located at 255 S. Kansas Avenue, Weslaco, Texas 78596, and complies with GASB Statement No. 67 *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them.	33
Current employees	<u>66</u>
Total	<u>99</u>

The Firemen’s Relief and Retirement Fund provides service retirement, death, disability and withdrawal benefits. These benefits vest after twenty years of credited service. Employees may retire at age 55 with twenty years of service. The monthly benefit at retirement is equal to a base benefit of 2.35% of the highest 60-month average salary multiplied by his years of service, with a maximum of 20 years, but not less than \$1,000; plus a longevity benefit equal to \$120 for each year of service in excess of 20 years. Under this plan, Weslaco firefighters are required to contribute 12% of their pay to the fund. The City of Weslaco is required to make contributions which will equal 12% of pay.

The City of Weslaco Firemen’s Relief and Retirement Plan was organized under the Texas Local Fire Fighters Retirement Act (TLFFRA). TLFFRA allows for paid and part-paid fire departments and volunteer fire departments in participating cities to administer their own local retirement systems. The Act provides a general framework for the establishment of TLFFRA systems, including some investment restrictions, but leaves administration, plan design, contributions, and specific investments to each system’s local board. Systems operating under TLFFRA are entirely locally funded.

In 2013 the Office of the Fire Fighter’s Pension Commissioner was abolished under the Senate Bill 220 by the Texas Sunset Commission. Accordingly, the duties and responsibilities assigned to the Commissioner were transferred to the Texas Pension Review Board (PRB).

The Texas Pension Review Board (PRB) is mandated to oversee all Texas public retirement systems, both state and local, in regard to their actuarial soundness and compliance with state law. The PRB monitors the financial and actuarial soundness of 93 actuarially funded defined benefit public retirement systems in Texas, as well as their compliance with state law.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE K – FIREMEN’S PENSION PLAN - Continued

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The Weslaco Firemen’s Relief and Retirement Fund’s financial statements are prepared using the accrual basis of accounting. The fund’s fiscal year is a calendar year and employee and employer contributions are recognized as revenue in the period in which they are received by the fund.

Method Use to Value Investments

The Weslaco Firemen’s Relief and Retirement Fund’s investments are reported at fair market value. There is no provision for the amortization of premium or discount in the purchase price of these assets. Investment income is recognized as it is received. Gains and losses on the sale of assets are recognized as of the transaction date.

Net Pension Liability

The City’s Net Pension Liability (NPL) for the Firemen’s Fund was measured as of September 30, 2015, 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

Valuation date	September 30, 2015
Actuarial cost method	Entry age - normal
Amortization method	open period, level percent of payroll
Remaining amortization period	15.97 years, closed
Asset valuation method	market value
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases	5.5%
Includes inflation at	none
Cost of living adjustments	none

There were no changes to methods since the prior valuation. The mortality assumption was updated to the RP-2014 blue collar mortality tables with the MP-214 longevity improvement scales.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates 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 (assumed 2.5%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocations as of December 31, 2014 are summarized in the following table:

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE K – FIREMEN’S PENSION PLAN - Continued

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return (Arithmetic)</u>
Equity	6.0%
Fixed Income	4.0%
Cash	0.0%

Discount rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all period of benefit payments to determine the total pension liability.

Schedule of Changes in Net Pension Liability

The change in net pension liability for the Firemen’s Fund for the fiscal year ended September 30, 2015 is as follows:

	<u>Increase (Decrease)</u>		
	(a) <u>Total Pension Liability</u>	(b) <u>Plan Fiduciary Net Position</u>	(a) – (b) <u>Net Pension Liability(Asset)</u>
Balance at September 30, 2014	\$12,059,988	\$8,518,295	\$3,541,693
Changes for the year			
Service cost	398,097	-	398,097
Interest	845,051	-	845,051
Contributions – employer	-	394,360	(394,360)
Contributions – employee	-	388,865	(388,865)
Net investment income	-	(127,198)	127,198
Benefit payments, including refunds of employee contributions	(833,923)	(833,923)	-
Administrative expenses	-	(85,190)	85,190
Other charges	-	-	-
Net changes	<u>409,225</u>	<u>(263,086)</u>	<u>672,311</u>
Balance at September 30, 2015	<u>\$12,469,213</u>	<u>\$8,255,209</u>	<u>\$4,214,004</u>

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE K – FIREMEN’S PENSION PLAN - Continued

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 7.25% as well as what the City's net pension liability would be if it were to be calculated using the discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	<u>1% Decrease in Discount Rate (6.25)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase in Discount Rate (8.25%)</u>
City’s net pension liability	<u>\$6,126,915</u>	<u>\$4,214,004</u>	<u>\$2,669,997</u>

For the year ended September 30, 2015 the city recognized pension expense in the amount of \$672,311.

NOTE L – OTHER POST-EMPLOYMENT BENEFITS

Other Plans

The City has deferred compensation plans created in accordance with the Internal Revenue Code Section 457. The plans are administered by independent plan administrators through administrative service agreements. One plan is available to all city employees, and the other plan is available to all employees of the Weslaco Fire Department.

Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death or financial hardship.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, but not subject to the claims of the City's general creditors. Participants' rights under the plan are preferred to those of general creditors of the City in an amount equal to the fair market value of the deferred amount for each participant.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan agreement but does not have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Other Postemployment Benefits

The City does not pay any postemployment benefits and no unfunded actuarial accrued liabilities are required under GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE M - DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The statement of net position reports deferred outflows of resources in connection to the consumption of net position that applies to a future period. The components of deferred outflows of resources are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Deferred outflows of resources				
Deferred outflows related to pension	\$636,909	\$113,642	\$750,551	\$ -
Deferred outflow related to interest rate swap	<u>-</u>	<u>-</u>	<u>-</u>	<u>965</u>
Total deferred outflows of resources	<u>\$636,909</u>	<u>\$113,642</u>	<u>\$750,551</u>	<u>\$ 965</u>

In addition to deferred outflows of resources the governmental activities reported \$19,600 in unearned revenue related to grants.

The statement of net position reports deferred inflows of resources in connection to an acquisition of net position that applies to a future period. The components of deferred inflows of resources are as follows:

Deferred inflows related to pensions in governmental activities and business-type activities were \$201,620 and \$35,975, respectively.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The City reported deferred inflows of resources as of September 30, 2015 as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>Component Unit</u>
Deferred inflows of resources				
Unavailable revenues – property taxes	\$673,225	\$291,056	\$964,281	\$ -
Unavailable revenues – notes receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,419,121</u>
Total deferred inflows of resources	<u>\$673,225</u>	<u>\$291,056</u>	<u>\$964,281</u>	<u>\$3,419,121</u>

NOTE N - CITY ADVISORY NON-PROFIT CORPORATION

There are five non-profit corporations owned by the City of Weslaco that are used to attract and promote industry, hospital and housing facilities.

The City Hospital and Housing Corporations (four) act as advisory boards which review and provide recommendations to the City Commission. There are no financial transactions involved.

Weslaco Development Committee, Inc. dissolved during the 2002 fiscal year. The Weslaco Economic Development Corporation absorbed the Weslaco Development Committee, Inc. assets and liabilities. The EDC operations are reported as a discretely presented component unit.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE O - PROPRIETARY FUND-SANITARY LANDFILL

Recognition of closure and post-closure costs

State and federal EPA laws require final cover closure as well as post-closure care of the City of Weslaco landfill site in Alton, Texas. The Governmental Accounting Standards Board issued Statement No. 18-Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs. This statement addresses the financial statement effect of the EPA rules and states rules and requires that all closure and post-closure costs be recognized during the operating life of the landfill. The City's landfill is currently inactive.

The closure and post-closure costs considered are based on this inactive state. If the landfill begins receiving wastes, the closure and post-closure and related liability balance will have to be revised based on the capacity of the landfill that will be used.

Approximately twenty-five percent of the landfill capacity has been used to date. Based on the current capacity used, \$574,492 was estimated as a closure and post-closure cost. The transfer station, underground petroleum storage tanks, closure and post-closure costs were estimated at \$146,577. The landfill has been closed and post-closure costs liability is estimated at \$574,492. These costs are currently reflected in the financial statements of the Solid Waste Fund. As costs are incurred during the year, the liability will be reduced. The City met the state's financial assurance requirements during the current fiscal year. The landfill remains in an inactive status as of September 30, 2015. The post-closure costs include lab tests, gas monitoring, leachate disposal and general monitoring maintenance during its inactive status.

NOTE P – COMMITMENTS

The Economic Development Corporation of Weslaco extended economic incentives to the following entities as follows:

<u>Incentives</u>	<u>Commitment</u>	<u>Paid in Prior Year</u>	<u>Paid in Current Year</u>	<u>Balance Due</u>
Becknell Development (L & W)	\$ 250,000	\$ 194,443	\$ 55,557	\$ -
TD Industries	71,000	50,600	10,200	10,200
Mayan-Kahn's Grill	150,000	-	75,000	75,000
Motion Industries	56,000	21,000	15,000	20,000
Mission Foods	60,000	27,500	10,000	22,500
Wal-Mart 900,000	900,000	-	150,000	750,000
RMH Franchise (Apple Bee's)	120,000	60,000	60,000	-
RGV Word	22,500	18,170	-	4,330
LF Trinity MEP Engineering	40,000	22,500	-	17,500
Payne Auto Group (GMC)	275,000	110,000	55,000	110,000
Payne Auto Group (Chevy)	275,000	110,000	55,000	110,000
Payne Auto Group (Ford)	275,000	27,500	55,000	192,500
Hermes Trading Co.	200,000	87,500	67,000	45,500
Nolana Self Storage (Sarina/MTL 6)	300,000	150,000	150,000	-
CI Logistics	200,000	150,000	50,000	-
Mid Valley Trailer Repair	116,750	-	-	116,750
BPMP (Chick-Fil-A/Blue Wave)	500,000	-	100,000	400,000
Pop Holdings, LP (Popeye's)	50,000	25,000	25,000	-
	<u>\$3,861,250</u>	<u>\$1,054,213</u>	<u>\$ 932,757</u>	<u>\$1,874,280</u>

Subsequent year balances of \$1,874,280 are contingent on the business entities maintaining agreed upon employment levels and other conditions of the loan/grant incentives. This amount is not recognized as a liability in the financial statements.

CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE Q - RISK MANAGEMENT

The City is exposed to various risks or torts; theft of, damage to, and destruction of assets; injuries to employees, citizens and the general public; and natural disasters. During fiscal year 2015, the City purchased group health insurance, life insurance, general liability insurance, and workmen's compensation insurance. The City also purchased insurance coverage for fire and extended coverage on buildings and contents; and fire, lightning, and windstorm insurance for its vehicles for damages in excess of certain limits. There were no significant reductions in insurance coverage from coverage in the prior year by major category risk. In addition, there were no material insurance settlements exceeding insurance coverage in any of the past three years.

NOTE R - CONTINGENT LIABILITIES

The City participates in a number of federally assisted grant programs which are the Community Development Block Grants, the Local Public Works Program, and the Texas Department of Transportation. These programs are subject to program compliance audits by the grantors or their representatives. The audit of these programs for/or including the year ending September 30, 2014 have not yet been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is involved in litigation claims against it from time to time that are generally incidental to its operations. However, it is the opinion of the City's management that the City's liability in those cases that are not covered by liability insurance will not be material to the financial statements for these contingent liabilities.

NOTE S - 380 ECONOMIC DEVELOPMENT PROGRAM AGREEMENT

The City of Weslaco is committed to the promotion of high quality development in all parts of the City and to an ongoing improvement in the quality of life for its citizens. The City of Weslaco has previously developed economic development programs and incentives designed to encourage high quality business, commercial, professional sports and manufacturing concerns to locate, remain, and expand in the City of Weslaco. Now the City of Weslaco seeks to enhance its economic development efforts to attract and retain high quality development and jobs by establishing Chapter 380 Economic Development Program Agreements.

These 380 Economic Development Program Agreements are established in an effort to develop and expand the local economy by promoting and encouraging development and redevelopment projects that enhance the City's economic base, and diversify and expand job opportunities or by promoting and encouraging projects that create additional revenue for the City without substantially increasing the demand on City services or infrastructure. The ultimate goal and public purpose of programs established is to protect and enhance the City's fiscal ability to provide high quality municipal services for the safety, comfort and enjoyment of Weslaco residents.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE S - 380 ECONOMIC DEVELOPMENT PROGRAM AGREEMENT - Continued

The following table lists the total Economic Development Program Agreements of the active Chapter 380 Economic Development Program Agreements:

<u>Agreement</u>	<u>Total Payments</u>	<u>Payments</u>		<u>Balance</u>
		<u>Prior Years</u>	<u>Current Year</u>	
SDI Weslaco Holdings, LLC	\$3,213,255	\$1,361,544	\$318,580	\$1,533,131
HEB Grocery Company, LP	4,177,173	1,352,927	262,772	2,561,474
Lowe's Home Center, INc.	<u>238,879</u>	<u>200,284</u>	<u>38,595</u>	-
Total	<u>\$7,629,307</u>	<u>\$2,914,755</u>	<u>\$619,947</u>	<u>\$4,094,605</u>

Sales Tax Rebate Agreements

In addition to the Chapter 380 Agreements, the City also offered sales rebates as additional incentives to the developer and retail establishments, locating within the SDI development project. These rebates are not recorded as a liability or commitment, as the individual amounts are not known until the sales taxes are collected. The total rebates have been set at \$5,250,000. These are to be reimbursed over ten years, beginning April 1, 2011. Total amount reimbursed sales tax proceeds to date is \$2,761,891, of which \$593,849 is current proceeds reimbursed. Total rebates balance owed is \$2,488,109.

NOTE T - RESTATEMENT OF NET POSITION / PRIOR PERIOD ADJUSTMENT

Change in Accounting Principle

During fiscal year 2015, the City of Weslaco adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB Statement No. 68, the City must recognize their Net Pension Liability of the defined benefit retirement plan through the Texas Municipal Retirement System (TMRS). Adoption of GASB 68 required a prior period adjustment to report the effect of the change in accounting principle retroactively.

The effect of the prior period adjustment in these financial statements was to restate beginning net position at October 1, 2013. In addition, pension contributions previously reported in fiscal year 2014 as personnel services expense were reclassified to a deferred outflow of resources on the statement of net position. The overall effect of these adjustments is to decrease ending net position as of September 30, 2014. The summary below details the adjustments to beginning net position.

De-blending of Component Unit

During fiscal year 2015 it was determined by management that the Economic Development Corporation of Weslaco, Texas met the criteria for presenting as a discretely presented component unit. The de-blending of the component unit required a prior period adjustment to reflect the change in reporting entity retroactively. The overall effect of this adjustment is summarized below.

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE T - RESTATEMENT OF NET POSITION / PRIOR PERIOD ADJUSTMENT - Continued

Other adjustments

Other adjustments were necessary to various accounts of governmental funds and business-type activities. The restatements required a prior period adjustment to report the effect of the correction of errors retroactively. The overall effect of these adjustments are summarized below.

Summary

The following table list the prior period restatements made to the City's financial statements as of September 30, 2015:

	<u>Governmental Funds</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Unit</u>
Prior period restatement of fund balance				
Adjustment to de-blend the Economic Development Corporation and report as a discretely presented component unit	\$(3,865,773)	\$(3,865,773)	\$ -	\$ -
Adjustment to fund balance to reflect amounts committed for construction of the Boys & Girls Club	910,601	910,601	-	-
Adjustment to reflect interest earned on Marion Booth Endowment Fund	(1,300)	(1,300)	-	-
Adjustment for payment reflected Chapter 380 Agreement in prior year	101,458	101,458	-	-
To adjust deferred inflows of resources for noncurrent notes receivable at the governmental fund level	-	-	-	(182,263)
Prior period restatement of net position				
Adjustment to de-blend the Economic Development Corporation and report as a discretely presented component unit	-	836,222	-	-
Adjustment to correct construction in progress amounts related to the Airport fund	-	-	67,521	-
Adjustment to correct accounts payable balance of the solid waste fund	-	-	330,768	-
Adjustment to record deferred outflows of resources for contributions made after the measurement date	-	345,904	61,718	-
To record beginning net pension liability – TMRS pension	-	(2,785,305)	(496,973)	-
To record beginning net pension liability – Firemen's pension	-	(3,541,693)	-	-
To remove capital assets reported in the City's Governmental Activities	-	-	-	(1,009,999)
To adjust deferred inflows of resources reported at the government-wide statement of net position	-	-	-	211,750
	<u>\$(2,855,014)</u>	<u>\$(7,999,886)</u>	<u>\$ (36,966)</u>	<u>\$ (980,512)</u>

**CITY OF WESLACO, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE U – FUND BALANCES

	General Fund	Debt Service	2013 Certificates of Obligation Construction Fund	Other Governmental Funds	Total	Component Unit
Nonspendable						
Inventories	\$ 34,790	\$ -	\$ -	\$ -	\$ 34,790	\$ -
Restricted for						
Street improvements and other capital projects	-	-	3,987,630	28,886	4,016,516	930,383
Tourism	-	-	-	369,432	369,432	-
Library activities	-	-	-	14,364	14,364	-
Debt service	-	1,112,428	-	-	1,112,428	695,256
Public safety	<u>466,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>466,288</u>	<u>-</u>
Restricted total	466,288	1,112,428	3,987,630	412,682	5,979,028	1,625,639
Assigned						
Assigned for capital projects	-	-	-	1,250,000	1,250,000	-
Assigned for development projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
Total assigned	-	-	-	1,250,000	1,250,000	60,000
Unassigned	<u>8,523,908</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,523,908</u>	<u>2,416,679</u>
	<u>\$9,024,986</u>	<u>\$1,112,428</u>	<u>\$3,987,630</u>	<u>\$1,662,682</u>	<u>\$15,787,726</u>	<u>\$4,102,318</u>

NOTE V – NET POSITION

Net position is composed of three categories: net investment in capital assets, restricted and unrestricted.

	Governmental Activities	Business-type Activities	Component Unit
Net investment in capital assets:			
Capital assets, net of accumulated depreciation	\$49,993,188	\$95,691,430	\$2,042,624
Less related liabilities	(29,674,829)	(62,688,261)	(2,240,000)
Plus unexpended bond proceeds	<u>-</u>	<u>5,972,195</u>	<u>924,883</u>
Net investment in capital assets	20,318,359	38,975,364	727,507
Restricted net position consists of the following:			
Debt service	1,403,484	1,305,881	695,256
Tourism	369,432	-	-
Library activities	14,364	-	-
Capital projects	<u>-</u>	<u>317,223</u>	<u>-</u>
Restricted net position	1,787,280	1,623,104	695,256
Unrestricted net position	<u>6,148,950</u>	<u>2,884,140</u>	<u>2,808,957</u>
Total net position	<u>\$28,254,589</u>	<u>\$43,482,608</u>	<u>\$4,231,720</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF WESLACO, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
Revenues				
Taxes:				
Property taxes	\$ 7,272,563	\$ 7,272,563	\$ 7,586,388	\$ 313,825
Nonproperty taxes	10,311,250	10,311,250	10,634,422	323,172
Fees and charges	3,026,310	3,026,310	3,471,864	445,554
Fines and forfeitures	584,300	584,300	523,767	(60,533)
Licenses and permits	419,000	419,000	479,501	60,501
Intergovernmental	220,000	220,000	273,123	53,123
Investment income	11,000	11,000	20,372	9,372
Miscellaneous	281,520	281,520	390,917	109,397
Total Revenues	<u>22,125,943</u>	<u>22,125,943</u>	<u>23,380,354</u>	<u>1,254,411</u>
Expenditures				
Current:				
General government	5,652,552	5,725,860	5,991,720	(265,860)
Public safety	10,240,584	10,350,641	10,476,065	(125,424)
Public works	1,991,354	1,990,454	1,790,960	199,494
Culture and recreation	1,128,739	1,125,789	1,118,457	7,332
Economic development	847,543	847,543	593,849	253,694
Capital outlay	371,000	875,520	1,243,679	(368,159)
Debt service:				
Principal	705,801	705,801	640,610	65,191
Interest and fees	-	-	2,382	(2,382)
Total Expenditures	<u>20,937,573</u>	<u>21,621,608</u>	<u>21,857,722</u>	<u>(236,114)</u>
Deficiency of revenues over expenditures	1,188,370	504,335	1,522,632	1,018,297
Other financing sources (uses):				
Capital lease proceeds	-	350,000	658,299	308,299
Transfers in	1,550,465	1,550,465	1,169,014	(381,451)
Transfers out	2,440,465	2,940,465	(2,460,758)	479,707
Total other financing sources (uses)	<u>3,990,930</u>	<u>4,840,930</u>	<u>(633,445)</u>	<u>406,554</u>
Net change in fund balances	<u>\$ 5,179,300</u>	<u>\$ 5,345,265</u>	889,187	<u>\$ 1,424,851</u>
Fund balances at beginning of year, as adjusted			<u>8,135,799</u>	
Fund balances at end of year			<u>\$ 9,024,986</u>	

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

City of Weslaco, Texas
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
For the Year Ended September 30, 2015

	<u>Municipal City</u>	<u>Fire</u>
Total Pension Liability		
Service cost	\$1,162,103	\$ 398,097
Interest (on the total pension liability)	2,504,972	845,051
Changes of benefit terms	-	-
Difference between expected and actual experience	(303,648)	-
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(1,978,636)</u>	<u>(833,923)</u>
Net change in total pension liability	1,384,791	409,225
Total pension liability – beginning	<u>36,193,584</u>	<u>12,059,988</u>
Total pension liability – ending (a)	<u>\$37,578,375</u>	<u>\$12,469,213</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 542,202	\$ 394,360
Contributions – employee	591,732	388,865
Net investment income	1,882,469	(127,198)
Benefit payments, including refunds of employee contributions	(1,978,636)	(833,923)
Administrative expense	(19,657)	(85,190)
Other	<u>(1,616)</u>	<u>-</u>
Net change in plan fiduciary net position	1,016,494	(263,086)
Plan fiduciary net position – beginning	<u>32,911,306</u>	<u>8,518,295</u>
Plan fiduciary net position – ending (b)	<u>\$33,927,800</u>	<u>\$ 8,255,209</u>
Net pension liability – ending (a) – (b)	<u>\$ 3,650,575</u>	<u>\$4,214,004</u>
Plan fiduciary net position as a percentage of total pension liability	90.29%	66.2%
Covered employee payroll	\$8,453,317	\$3,119,208
Net pension liability as a percentage of covered employee payroll	43.19%	135.1%

City of Weslaco, Texas
SCHEDULE OF CONTRIBUTIONS
 For the Year Ended September 30, 2015

	<u>Municipal City</u>	<u>Fire</u>
Actuarially determined contribution	\$ 562,443	\$ 379,251
Contributions in relation to actuarially determined contribution	<u>(562,443)</u>	<u>394,360</u>
Contribution deficiency (excess)	\$ <u> -</u>	\$ <u>(15,109)</u>
Covered employee payroll	\$8,538,660	\$3,119,208
Contributions as a percentage of covered employee payroll	6.59%	12.64%

City of Weslaco, Texas
NOTES TO SCHEDULE OF CONTRIBUTIONS
For the Year Ended September 30, 2015

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience – based table based on rates that are specific to the City’s plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 – 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information: There were no benefit changes during the year.

City of Weslaco, Texas
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2015

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except for the capital projects funds, which adopt project - length budgets. Formal budgetary integration is employed as a management control device during the year for the General, Debt Service and Special Revenue funds, as well as for the Water, Sewer and Solid Waste collection funds.

Unused appropriations for all of the above annually budgeted funds lapse at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Budgetary data for Capital Project Funds are budgeted over the life of the respective project and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements.

Revisions that alter individual expenditure category or department totals within a fund must be approved by the City Council. Therefore, the legal level of budgetary responsibility is the department level.

City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. City Management submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating fund includes proposed expenditures and the means of financing them. Public hearings are conducted at City Hall to obtain taxpayer comments. Prior to October 1, the budget is adopted by the City Council.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, one budgetary revision was necessary.

Expenditures Over Appropriations

At September 30, 2015, expenditures in the following departments exceeded appropriations:

General government	(\$265,860)
Public safety	(\$125,424)
Capitalized items	(\$368,159)
Interest and fees	(\$2,382)

General Government- reduction of pending litigation and settlement offers were not budgeted during the current fiscal year. In addition, the contractual obligation to pay invoices regarding the Valley Nature Center was never budgeted or amended during the current fiscal year.

Public Safety- high amounts of overtime of public safety officers were approved during the current year. However, the budget was never adjusted to account for the additional wages.

Capitalized items- multiple capitalized expenditures were authorized to ensure all departments were adequately supplied with tools and equipment needed to address multiple problem areas in the City. The additional capitalized expenditures were not reflected in the original or amended budget.

Interest and fees- interest expense associated with capital leases entered into during the current year were not budgeted for.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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An opinion in substantially the following form will be delivered by Winstead PC, Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

WINSTEAD

Austin | Charlotte | Dallas | Fort Worth | Houston | New Orleans | San Antonio | The Woodlands | Washington, D.C.

300 Convent Street
Suite 2700
San Antonio, Texas 78205

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June 30, 2016

**CITY OF WESLACO, TEXAS
LIMITED TAX REFUNDING BONDS, SERIES 2016
IN THE ORIGINAL PRINCIPAL AMOUNT OF \$19,485,000**

We have acted as Bond Counsel to the City of Weslaco, Texas (the "City") in connection with the issuance of the bonds described above (the "Bonds") for the sole purpose of providing legal advice and traditional legal services to the City including rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents 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 Bonds. We have relied solely on information and certifications furnished to us by the City with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the City Commission of the City (the "Commission"); an ordinance of the Commission authorizing the Bonds, adopted on March 15, 2016, and a "Pricing Certificate", dated June 7, 2016 (collectively, the "Ordinance"); the "Escrow Agreement", dated as of June 15, 2016, between the City and Amegy Bank, a division of ZB, National Association; a special report of Grant Thornton LLP, certified public accountants, relating to the accuracy of certain mathematical computations and verifying the sufficiency of the deposits made with the Escrow Agent pursuant to the Escrow Agreement for the defeasance of the obligations being refunded with the proceeds of the Bonds (such refunded obligations, the "Refunded Obligations", such special report, the "Report"); the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the City (including a "Federal Tax Certificate") and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. 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. We have examined executed Bond No. I-1.

Based on said examination, and in accordance with customary legal opinion practice, it is our opinion that:

1. The City is a validly existing municipal corporation and home-rule city of the State of Texas with power to adopt the Ordinance, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. Ad valorem taxes, within legal limitations, upon all taxable property within the City, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably for such purpose.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Code and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than an S corporation, a qualified mutual fund, a regulated investment company, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust) for purposes of computing its alternative minimum tax. Corporate purchasers of the Bonds should consult their tax advisors regarding the computation of alternative minimum tax. The statutes, regulations, published rulings, and court decisions on which such opinions are based are subject to change.

6. The Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming the due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and legally binding agreement enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and the Refunded Obligations discharged, paid, and retired with certain of the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, and in accordance with the provisions of Chapter 1207, Texas Government Code. In rendering this opinion, we have relied upon the verification in the Report of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the principal of and interest on the Refunded Obligations.

In rendering these opinions, we have relied upon representations and certifications of the City, its financial advisor, and the initial purchaser of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the City with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the City fails to comply with such covenants, interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as 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, ownership, or disposition of the Bonds.

We call your attention to the fact that the ownership of obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are 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 hereafter come to our attention, or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on 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 relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

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