Item # 5

CITY OF HORSESHOE BAY

SEPTEMBER 20, 2016

To: Mayor and City Council

Thru: Stan R. Farmer, City Manager

From: Larry O. Anderson, Finance Director

RE: Discuss, Consider and Take Action Regarding Approval of an Ordinance of the City Council of the City of Horseshoe Bay, Texas, Authorizing the Issuance and Sale of City of Horseshoe Bay, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2016; Levying a Tax in Payment Thereof; Authorizing the Execution and Delivery of a Purchase Agreement and a Paying Agent/Registrar Agreement; Approving the Official Statement; Finding and Determining that the Meeting at Which this Ordinance is Passed is Open to the Public as Required by Law; and Enacting Other Provisions Relating Thereto

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The City's Bond Attorney, Glenn Opel, provided Staff with the Ordinance necessary for authorizing and approving the issuance and sale of Combination Tax and Revenue Certificates of Obligation, Series 2016. The Council previously approved an Intent to Issue Certificates of Obligation Series 2016.

The enclosed ordinance is complete except with respect to pricing information which will not be available until the day of sale on either September 19 or September 20 in the AM. When the information is received, it will be inserted into the ordinance.

The City's Financial Advisor Jennifer Douglas and the Bond Attorney will be in attendance September 20.

Staff requests the City Council to approve the Ordinance Authorizing the City of Horseshoe Bay, Texas Combination Tax and Revenue Certificates of Obligation, Series 2016 and enacting other provisions relating thereto.

Enclosures: Draft Ordinance, Preliminary Official Statement

ORDINANCE NO. _____

AUTHORIZING THE
ISSUANCE OF

CITY OF HORSESHOE BAY, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION
SERIES 2016

Adopted: _____, 2016

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AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF HORSESHOE BAY, TEXAS, AUTHORIZING THE ISSUANCE AND SALE OF CITY OF HORSESHOE BAY, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2016; LEVYING A TAX IN PAYMENT THEREOF; AUTHORIZING THE EXECUTION AND DELIVERY OF A PURCHASE AGREEMENT AND A PAYING AGENT/REGISTRAR AGREEMENT; APPROVING THE OFFICIAL STATEMENT; FINDING AND DETERMINING THAT THE MEETING AT WHICH THIS ORDINANCE IS PASSED IS OPEN TO THE PUBLIC AS REQUIRED BY LAW; AND ENACTING OTHER PROVISIONS RELATING THERETO;

WHEREAS, under the provisions of Subchapter C, Chapter 271, Texas Local Government Code, as amended, the City of Horseshoe Bay, Texas (the "City"), is authorized to issue certificates of obligation for the purposes specified in this Ordinance and for the payment of all or a portion of the contractual obligations for professional services, including that of engineers, attorneys, and financial advisors in connection therewith, and to sell the same for cash as herein provided; and

WHEREAS, the City is authorized to provide that such obligations will be payable from and secured by the levy of a direct and continuing ad valorem tax against all taxable property within the City, in combination with all or a part of certain surplus revenues of the City's water and sewer system remaining after payment of any obligations of the City payable in whole or in part from a lien or pledge of such revenues that would be superior to the obligations to be authorized herein as authorized by Chapter 1502, Texas Government Code; and

WHEREAS, the City Council has found and determined that it is necessary and in the best interests of the City and its citizens that it issue such certificates of obligation authorized by this Ordinance; and

WHEREAS, pursuant to a resolution heretofore passed by this governing body, notice of intention to issue certificates of obligation of the City payable as provided in this Ordinance was published in a newspaper of general circulation in the City in accordance with the laws of the State of Texas; and

WHEREAS, no petition of any kind has been filed with the City Secretary, any member of the City Council or any other official of the City, protesting the issuance of such certificates of obligation; and

WHEREAS, this City Council is now authorized and empowered to proceed with the issuance of said certificates of obligation and to sell the same for cash; and

WHEREAS, the meeting at which this Ordinance is considered is open to the public as required by law, and the public notice of the time, place and purpose of said meeting was given as required by Chapter 551, Texas Government Code, as amended;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF HORSESHOE BAY, TEXAS:

ARTICLE I

DEFINITIONS AND OTHER PRELIMINARY MATTERS

Section 1.01. Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise in this Ordinance, the following terms shall have the meanings specified below:

"Business Day" means any day which is not a Saturday, Sunday or legal holiday, or day on which banking institutions in the State of Texas or the city in which the Designated Payment/Transfer Office is located are generally authorized or obligated by law or executive order to close.

"Certificate" means any of the Certificates.

"Certificates" means the City's obligations authorized to be issued by Section 3.01 of this Ordinance and designated as "City of Horseshoe Bay, Texas Combination Tax and Revenue Certificates of Obligation, Series 2016."

"City" means the City of Horseshoe Bay, Texas.

"Closing Date" means the date of the initial delivery of and payment for the Certificates.

"Code" means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

"Dated Date" means the date of the Certificates designated in Section 3.02(a).

"Designated Payment/Transfer Office" means (i) with respect to the initial Paying Agent/Registrar named herein, its office in Austin, Texas, or at such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the City and such successor.

"DTC" means The Depository Trust Company of New York, New York, or any successor securities depository.

"DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"Event of Default" means any event of default as defined in Section 10.01 of this Ordinance.

"Fiscal Year" means such fiscal year as shall from time to time be set by the City Council.

"Initial Certificate" means the Initial Certificate authorized by Section 3.04 of this Ordinance.

"Interest and Sinking Fund" means the interest and sinking fund established by Section 2.02 of this Ordinance.

"Interest Payment Date" means the date or dates on which interest on the Certificates is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being February 15 and August 15, commencing August 15, 2017.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenues" means the gross revenues of the System less the expenses of operation and maintenance as said expenses are defined by Chapter 1502, Texas Government Code, as amended.

"Owner" means the person who is the registered owner of a Certificate or Certificates, as shown in the Register.

"Paying Agent/Registrar" means initially BOKF, NA, Austin, Texas, or any successor thereto as provided in this Ordinance.

"Prior Lien Bonds" means any and all bonds or other obligations of the City presently outstanding or that may be hereafter issued, payable from and secured by a first lien on and pledge of the Net Revenues or by a lien on and pledge of the Net Revenues subordinate to a first lien and pledge of such Net Revenues but superior to the lien and pledge of the Surplus Revenues made for the Certificates.

"Project" means the purposes for which the Certificates are issued as set forth in Section 3.01.

"Purchase Agreement" means the purchase agreement, between the City and the Underwriter, pertaining to the sale of the Certificates.

"Record Date" means the last Business Day of the month next preceding an Interest Payment Date.

"Register" means the bond register specified in Section 3.06(a) of this Ordinance.

"Regulations" means the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Special Payment Date" means the Special Payment Date prescribed by Section 3.03(b) of this Ordinance.

"Special Record Date" means the Special Record Date prescribed by Section 3.03(b) of this Ordinance.

"Surplus Revenues" means the Net Revenues of the System in an amount equal to $1,000 remaining after payment of all debt service, reserve, and other requirements in connection with the City's Prior Lien Bonds.

"System" as used in this Ordinance means the City's water and waste water system, including all present and future additions, extensions, replacements, and improvements thereto.

"Unclaimed Payments" means money deposited with the Paying Agent/Registrar for the payment of principal of or interest on the Certificates as the same come due and payable or money set aside for the payment of Certificates duly called for redemption prior to maturity.

"Underwriter" means Robert W. Baird & Co. Incorporated.

Section 1.02. Findings.

The declarations, determinations and findings declared, made and found in the preamble to this Ordinance are hereby adopted, restated and made a part of the operative provisions hereof.

Section 1.03. Table of Contents, Titles and Headings.

The table of contents, titles and headings of the Articles and Sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Ordinance or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.04. Interpretation.

(a) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(b) Any action required to be taken on a date which is not a Business Day shall be taken on the next succeeding Business Day and have the same effect as if taken on the date so required.

(c) This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein to sustain the validity of this Ordinance.

(d) Article and section references shall mean references to articles and sections of this Ordinance unless otherwise designated.

ARTICLE II

SECURITY FOR THE CERTIFICATES; INTEREST AND SINKING FUND

Section 2.01. Tax Levy.

(a) Pursuant to the authority granted by the Texas Constitution and laws of the State of Texas, there shall be levied and there is hereby levied for the current year and for each succeeding year thereafter while any of the Certificates or any interest thereon is outstanding and unpaid, an ad valorem tax on each one hundred dollars valuation of taxable property within the City, at a rate sufficient, within the limit prescribed by law, to pay the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their redemption at maturity or a sinking fund of two percent per annum (whichever amount is the greater), when due and payable, full allowance being made for delinquencies and costs of collection.

(b) The ad valorem tax thus levied shall be assessed and collected each year against all property appearing on the tax rolls of the City most recently approved in accordance with law, and the money thus collected shall be deposited as collected to the Interest and Sinking Fund.

(c) Said ad valorem tax, the collections therefrom, and all amounts on deposit in or required hereby to be deposited to the Interest and Sinking Fund are hereby pledged and committed irrevocably to the payment of the principal of and interest on the Certificates when and as due and payable in accordance with their terms and this Ordinance.

(d) The amount of taxes to be provided annually for the payment of principal of and interest on the Certificates shall be determined in the manner provided in this Section 2.01.

(e) The City's annual budget shall reflect (i) the amount of debt service requirements to become due on the Certificates in the next succeeding Fiscal Year, (ii) the amount on deposit in the Interest and Sinking Fund, as of the date such budget is prepared (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year), and (iii) the amount of Surplus Revenues estimated and budgeted to be available for the payment of such debt service requirements on the Certificates during the next succeeding Fiscal Year.

(f) The amount required to be provided in the succeeding Fiscal Year from ad valorem taxes shall be the amount, if any, the debt service requirements to be paid on the Certificates in the next succeeding Fiscal Year exceeds the sum of (i) the amount shown to be on deposit in the Interest and Sinking Fund (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) at the time the annual budget is prepared, and (ii) the Surplus Revenues shown to be budgeted and available for payment of said debt service requirements.

(g) Following the final approval of the annual budget of the City, the governing body of the City shall, by ordinance, set an ad valorem tax at a rate sufficient to produce taxes in the

amount determined in paragraph (b) above, to be utilized for purposes of paying the principal of and interest on the Certificates in the next succeeding Fiscal Year.

(h) The City hereby covenants and agrees that the Surplus Revenues are hereby irrevocably pledged equally and ratably to the payment of the principal of and interest on the Certificates, as the same become due.

Section 2.02. Interest and Sinking Fund.

(a) The City hereby establishes a special fund or account to be designated the "City of Horseshoe Bay, Texas Combination Tax and Revenue Certificates of Obligation, Series 2016, Interest and Sinking Fund" (the "Interest and Sinking Fund"), said fund to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City.

(b) Money on deposit in or required by this Ordinance to be deposited to the Interest and Sinking Fund shall be used solely for the purpose of paying the interest on and principal of the Certificates when and as due and payable in accordance with their terms and this Ordinance.

ARTICLE III

AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE CERTIFICATES

Section 3.01. Authorization.

The City's certificates of obligation to be designated "City of Horseshoe Bay, Texas Combination Tax and Revenue Certificates of Obligation, Series 2016," are hereby authorized to be issued and delivered in accordance with the laws of the State of Texas, specifically Subchapter C, Chapter 271, Texas Local Government Code. The Certificates shall be issued in the aggregate principal amount of $_____, for the purpose of paying contractual obligations to be incurred for the following purposes, to wit: (a) acquiring, constructing, improving and expanding the City's water and waste water system; (b) acquisition of two fire engines and related equipment; and (c) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

Section 3.02. Date, Denomination, Maturities and Interest.

(a) The Certificates shall be dated September 15, 2016. The Certificates shall be in fully registered form, without coupons, in the denomination of $5,000 or any integral multiple thereof, and shall be numbered separately from one upward or such other designation acceptable to the City and the Paying Agent/Registrar, except the Initial Certificate, which shall be numbered T-1.

(b) The Certificates shall mature on August 15 in the years and in the principal amounts and shall bear interest at the per annum rates set forth in the following schedule:

Certificates

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
2017	$ _____	_____%	2025	$ _____	_____%
2018			2026		
2019			2027		
2020			2028		
2021			2029		
2022			2030		
2023			2031		
2024					

(c) Interest shall accrue and be paid on each Certificate respectively until its maturity or prior redemption, from the later of the Closing Date or the most recent Interest Payment Date to which interest has been paid or provided for at the rates per annum for each respective maturity specified in the schedule contained in subsection (b) above. Such interest shall be payable semiannually on each Interest Payment Date until maturity or prior redemption. Interest on the Certificates shall be calculated on the basis of a 360-day year composed of 12 months of thirty (30) days each.

Section 3.03. Medium, Method and Place of Payment.

(a) The principal of and interest on the Certificates shall be paid in lawful money of the United States of America.

(b) Interest on the Certificates shall be payable to the Owners as shown in the Register at the close of business on the Record Date; provided, however, that in the event of nonpayment of interest on a scheduled Interest Payment Date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which date shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) Business Days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Certificate appearing in the Register at the close of business on the last Business Day next preceding the date of mailing of such notice.

(c) Interest on each Certificate shall be paid by check, dated as of the Interest Payment Date, and mailed on or before such Interest Payment Date, by first class United States mail, postage prepaid, by the Paying Agent/Registrar to each Owner at the address of each Owner as it appears in the Register, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the Owner; provided, however, that such Owner shall bear all risk and expense of such other customary banking arrangements.

(d) The principal of each Certificate shall be paid to the Owner thereof on the due date (whether at the maturity date or the date of prior redemption thereof) upon presentation and surrender of such Certificate at the Designated Payment/Transfer Office.

(e) If the date for the payment of the principal of or interest on the Certificates is not a Business Day, the date for such payment shall be the next succeeding Business Day, and payment on such date shall have the same force and effect as if made on the original date payment was due and no additional interest shall be due by reason of nonpayment on the date on which such payment is otherwise stated to be due and payable.

(f) Unclaimed Payments of amounts due hereunder shall be segregated in a special account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owner of the Certificates to which such Unclaimed Payments pertain. Subject to Title 6 of the Texas Property Code, any Unclaimed Payments remaining unclaimed by the Owners entitled thereto for three years after the applicable payment or redemption date shall be applied to the next payment or payments on the Certificates thereafter coming due and, to the extent any such money remains three years after the retirement of all outstanding Certificates, such money shall be paid to the City to be used for any lawful purpose. Thereafter, neither the City, the Paying Agent/Registrar nor any other person shall be liable or responsible to any holders of such Certificates for any further payment of such unclaimed moneys or on account of any such Certificates, subject to Title 6 of the Texas Property Code.

Section 3.04. Execution and Registration of Certificates.

(a) The Certificates shall be executed on behalf of the City by the Mayor and the City Secretary, by their manual or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Certificates shall have the same effect as if each of the Certificates had been signed manually and in person by each of said officers, and such facsimile seal on the Certificates shall have the same effect as if the official seal of the City had been manually impressed upon each of the Certificates.

(b) In the event that any officer of the City whose manual or facsimile signature appears on the Certificates ceases to be such officer before the authentication of such Certificates or before the delivery thereof, such manual or facsimile signature nevertheless shall be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Certificate shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Certificate of Paying Agent/Registrar substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Paying Agent/Registrar. It shall not be required that the same officer or authorized signatory of the Paying Agent/Registrar sign the Certificate of Paying Agent/Registrar on all of the Certificates. In lieu of the executed Certificate of Paying Agent/Registrar described above, the Initial Certificate delivered at the Closing Date shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided herein, manually executed by the Comptroller of Public Accounts of the State of Texas, or by his duly authorized agent, which certificate shall be evidence that the Initial Certificate has been duly approved by the Attorney

General of the State of Texas and that it is a valid and binding obligation of the City, and that it has been registered by the Comptroller of Public Accounts of the State of Texas.

(d) On the Closing Date, one Initial Certificate representing the entire principal amount of all Certificates, payable in stated installments to the Underwriter, or its designee, executed by the manual or facsimile signature of the Mayor and City Secretary of the City, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts, will be delivered to the Underwriter or its designee. Upon payment for the Initial Certificate, the Paying Agent/Registrar shall cancel the Initial Certificate and deliver to DTC on behalf of the Underwriter one registered definitive Certificate for each year of maturity of the Certificates in the aggregate principal amount of all Certificates for such maturity bearing interest at the same per annum rate, registered in the name of Cede & Co., as nominee of DTC.

Section 3.05. Ownership.

(a) The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificate for the purpose of making and receiving payment of the principal thereof and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes (except interest will be paid to the person in whose name such obligation is registered on the Record Date or Special Record Date, as applicable), whether or not such Certificate is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the Owner of a Certificate shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Certificate to the extent of the sums paid.

Section 3.06. Registration, Transfer and Exchange.

(a) So long as any Certificates remain outstanding, the City shall cause the Paying Agent/Registrar to keep at the Designated Payment/Transfer Office a register (the "Register") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Certificates in accordance with this Ordinance.

(b) The ownership of a Certificate may be transferred only upon the presentation and surrender of the Certificate at the Designated Payment/Transfer Office with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of any Certificate shall be effective until entered in the Register.

(c) The Certificates shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office for a Certificate or Certificates of the same maturity and interest rate and in any denomination or denominations of any integral multiple of $5,000 and in an aggregate principal amount equal to the unpaid principal amount of the Certificates presented for exchange. The Paying Agent/Registrar is hereby authorized to authenticate and deliver Certificates exchanged for other Certificates in accordance with this Section.

(d) Each exchange Certificate delivered by the Paying Agent/Registrar in accordance with this Section shall constitute an original contractual obligation of the City and shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such exchange Certificate is delivered.

(e) No service charge shall be made to the Owner for the initial registration, subsequent transfer, or exchange for a different denomination of any of the Certificates. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer or exchange of an Certificate.

(f) Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Certificate called for redemption, in whole or in part, within forty-five (45) calendar days prior to the date fixed for redemption; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Certificate.

Section 3.07. Cancellation.

All Certificates paid or redeemed before scheduled maturity in accordance with this Ordinance, and all Certificates in lieu of which exchange Certificates or replacement Certificates are authenticated and delivered in accordance with this Ordinance, shall be cancelled and proper records shall be made regarding such payment, redemption, exchange or replacement. The Paying Agent/Registrar shall dispose of cancelled Certificates in accordance with the record retention policies of the Paying Agent/Registrar.

Section 3.08. Temporary Certificates.

(a) Following the delivery and registration of the Initial Certificate and pending the preparation of definitive Certificates, the proper officers of the City may execute and, upon the City's request, the Paying Agent/Registrar shall authenticate and deliver, one or more temporary Certificates that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Certificates in lieu of which they are delivered, without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers of the City executing such temporary Certificates may determine, as evidenced by their signing of such temporary Certificates.

(b) Until exchanged for Certificates in definitive form, such Certificates in temporary form shall be entitled to the benefit and security of this Ordinance.

(c) The City, without unreasonable delay, shall prepare, execute and deliver to the Paying Agent/Registrar the Certificates in definitive form; thereupon, upon the presentation and surrender of the Certificates in temporary form to the Paying Agent/Registrar, the Paying Agent/Registrar shall cancel the Certificates in temporary form and shall authenticate and deliver in exchange therefor Certificates of the same maturity and series, in definitive form, in the authorized denomination, and in the same aggregate principal amount, as the Certificates in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any Owner.

Section 3.09. Replacement Certificates.

(a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Certificate, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding. The City or the Paying Agent/Registrar may require the Owner of such Certificate to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.

(b) In the event that any Certificate is lost, apparently destroyed or wrongfully taken, the Paying Agent/Registrar, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Certificate has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner first:

(i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Certificate;

(ii) furnishes such security or indemnity as may be required by the Paying Agent/Registrar to save it and the City harmless;

(iii) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and any tax or other governmental charge that is authorized to be imposed; and

(iv) satisfies any other reasonable requirements imposed by the City and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Certificate, a bona fide purchaser of the original Certificate in lieu of which such replacement Certificate was issued presents for payment such original Certificate, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Certificate from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the City or the Paying Agent/Registrar in connection therewith.

(d) In the event that any such mutilated, lost, apparently destroyed or wrongfully taken Certificate has become or is about to become due and payable, the Paying Agent/Registrar, in its discretion, instead of issuing a replacement Certificate, may pay such Certificate if it has become due and payable or may pay such Certificate when it becomes due and payable.

(e) Each replacement Certificate delivered in accordance with this Section shall constitute an original additional contractual obligation of the City and shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such replacement Certificate is delivered.

Section 3.10. Book-Entry Only System.

The definitive Certificates shall be initially issued in the form of a separate typewritten fully registered Certificate for each of the maturities thereof bearing interest at the same per annum rate. Upon initial issuance, the ownership of such Certificates shall be registered in the name of Cede & Co., as nominee of DTC, and except as provided in Section 3.11 hereof, all of the outstanding Certificates shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Certificates registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the Certificates. Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Certificates, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any notice with respect to the Certificates, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown in the Register of any amount with respect to principal of or interest on the Certificates. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Certificate is registered in the Register as the absolute owner of such Certificate for the purpose of payment of principal of and interest on the Certificates, for the purpose of all matters with respect to such Certificate, for the purpose of registering transfer with respect to such Certificate, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Certificates only to or upon the order of the respective owners, as shown in the Register as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of and interest on the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Register, shall receive a Certificate evidencing the obligation of the City to make payments of amounts due pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

Section 3.11. Successor Securities Depository; Transfer Outside Book-Entry Only System.

In the event that the City or the Paying Agent/Registrar determines that DTC is incapable of discharging its responsibilities described herein and in the representation letter of the City to DTC, and that it is in the best interest of the beneficial owners of the Certificates that they be able to obtain certificated Certificates, or in the event DTC discontinues the services described herein, the City or the Paying Agent/Registrar shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Certificates to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Certificates and transfer one or more separate Certificates to DTC Participants having Certificates credited to

their DTC accounts. In such event, the Certificates shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Certificates shall designate, in accordance with the provisions of this Ordinance.

Section 3.12. Payments to Cede & Co.

Notwithstanding any other provision of this Ordinance to the contrary, so long as any Certificates are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of and interest on such Certificates, and all notices with respect to such Certificates, shall be made and given, respectively, in the manner provided in DTC's then current operational procedures.

ARTICLE IV

REDEMPTION OF CERTIFICATES BEFORE MATURITY

Section 4.01. Limitation on Redemption.

The Certificates shall be subject to redemption before their scheduled maturity only as provided in this Article IV.

Section 4.02. Optional Redemption.

(a) The City reserves the option to redeem Certificates maturing on and after August 15, 20__, in whole or in part in principal amounts of $5,000 or any integral multiple thereof before their respective scheduled maturity dates, on August 15, 20__ or on any date thereafter, such redemption date or dates to be fixed by the City, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date of redemption.

(b) If less than all of the Certificates are to be redeemed pursuant to an optional redemption, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot the Certificates, or portions thereof, within such maturity or maturities and in such principal amounts for redemption.

(c) The City, at least forty-five (45) days before the redemption date, unless a shorter period shall be satisfactory to the Paying Agent/Registrar, shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Certificates to be redeemed.

Section 4.03. [Mandatory Sinking Fund Redemption.

(a) The Certificates stated to mature on August 15, 20__ (the "Term Certificates") are subject to scheduled mandatory redemption and will be redeemed by the City, in part at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption

date, out of moneys available for such purpose in the Interest and Sinking Fund, on August 15 in the years and in the respective principal amounts as set forth in the following schedule:

Term Certificate Maturing August 15, 20__

Redemption Date (August 15)	Principal Amount
20__	$ _____
20__	
20__*	

(*) Stated maturity.

(b) At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed, shall call such Term Certificates for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in Section 4.05.

(c) The principal amount of the Term Certificates required to be redeemed on any redemption date pursuant to subparagraph (a) of this Section 4.03 shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.]

Section 4.04. Partial Redemption.

(a) A portion of a single Certificate of a denomination greater than $5,000 may be redeemed, but only in a principal amount equal to $5,000 or any integral multiple thereof. If such an Certificate is to be partially redeemed, the Paying Agent/Registrar shall treat each $5,000 portion of the Certificate as though it were a single Certificate for purposes of selection for redemption.

(b) Upon surrender of any Certificate for redemption in part, the Paying Agent/Registrar, in accordance with Section 3.06 of this Ordinance, shall authenticate and deliver an exchange Certificate or Certificates in an aggregate principal amount equal to the unredeemed portion of the Certificate so surrendered, such exchange being without charge, notwithstanding any provision of Section 3.06 to the contrary.

Section 4.05. Notice of Redemption to Owners.

(a) The Paying Agent/Registrar shall give notice of any redemption of Certificates by sending notice by United States mail, first class, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Certificate (or part thereof) to be redeemed, at

the address shown in the Register at the close of business on the Business Day next preceding the date of mailing such notice.

(b) The notice shall state the redemption date, the redemption price, the place at which the Certificates are to be surrendered for payment, and, if less than all the Certificates outstanding are to be redeemed, an identification of the Certificates or portions thereof to be redeemed.

(c) The City reserves the right to give notice of its election or direction to redeem Certificates under Section 4.02 conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificates subject to a conditional notice of redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, in the case of a conditional notice of redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

(d) Any notice so mailed shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. Notice having been so given and subject, in the case of an optional redemption, to any rights or conditions reserved by the City in the notice, the Certificates called for redemption shall become due and payable on the specified redemption date, and notwithstanding that any obligation or portion thereof has not been surrendered for payment, interest on such obligation or portion thereof shall cease to accrue.

Section 4.06. Payment Upon Redemption.

(a) Before or on each redemption date, the City shall deposit with the Paying Agent/Registrar money sufficient to pay all amounts due on the redemption date and the Paying Agent/Registrar shall make provision for the payment of the Certificates to be redeemed on such date by setting aside and holding in trust an amount from the Interest and Sinking Fund or otherwise received by the Paying Agent/Registrar from the City and shall use such funds solely for the purpose of paying the principal of, and accrued interest on the Certificates being redeemed.

(b) Upon presentation and surrender of any Certificate called for redemption at the Designated Payment/Transfer Office of the Paying Agent/Registrar on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of, redemption premium, if any, and accrued interest on such Certificate to the date of redemption from the money set aside for such purpose.

Section 4.07. Effect of Redemption.

(a) Notice of redemption having been given as provided in Section 4.05 of this Ordinance, and subject to the provisions of Section 4.05(c), the Certificates or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the City fails to make provision for the payment of the principal thereof or accrued interest thereon, such Certificates or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Certificates are presented and surrendered for payment on such date.

(b) If the City shall fail to make provision for payment of all sums due on a redemption date, or rescinds the notice of redemption, then any Certificate or portion thereof called for redemption shall continue to bear interest at the rate stated on the Certificate until due provision is made for the payment of same by the City.

ARTICLE V

PAYING AGENT/REGISTRAR

Section 5.01. Appointment of Initial Paying Agent/Registrar.

The BOKF, NA, Austin, Texas, is hereby appointed as the initial Paying Agent/Registrar for the Certificates.

Section 5.02. Qualifications.

Each Paying Agent/Registrar shall be a commercial bank, a trust company organized under the laws of the State of Texas, or any other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Certificates.

Section 5.03. Maintaining Paying Agent/Registrar.

(a) At all times while any Certificates are outstanding, the City will maintain a Paying Agent/Registrar that is qualified under Section 5.02 of this Ordinance. The Mayor is hereby authorized and directed to execute an agreement with the Paying Agent/Registrar specifying the duties and responsibilities of the City and the Paying Agent/Registrar in substantially the form presented at this meeting, the form, terms and provisions of which are hereby approved.

(b) If the Paying Agent/Registrar resigns or otherwise ceases to serve as such, the City will promptly appoint a replacement, provided no such resignation shall be effective until a successor Paying Agent/Registrar has accepted the duties of Paying Agent/Registrar for the Certificates.

Section 5.04. Termination.

The City, upon not less than sixty (60) days' notice, reserves the right to terminate the appointment of any Paying Agent/Registrar by delivering to the entity whose appointment is to

be terminated written notice of such termination, provided, that such termination shall not be effective until a successor Paying Agent/Registrar has been appointed and has accepted the duties of Paying Agent/Registrar for the Certificates.

Section 5.05. Notice of Change to Owners.

Promptly upon each change in the entity serving as Paying Agent/Registrar, the City will cause notice of the change to be sent to each Owner by first class United States mail, postage prepaid, at the address in the Register, stating the effective date of the change and the name and mailing address of the replacement Paying Agent/Registrar.

Section 5.06. Agreement to Perform Duties and Functions.

By accepting the appointment as Paying Agent/Registrar and executing the Paying Agent/Registrar Agreement, the Paying Agent/Registrar is deemed to have agreed to the provisions of this Ordinance and that it will perform the duties and functions of Paying Agent/Registrar prescribed thereby.

Section 5.07. Delivery of Records to Successor.

If a Paying Agent/Registrar is replaced, such Paying Agent/Registrar, promptly upon the appointment of the successor, will deliver the Register (or a copy thereof) and all other pertinent books and records relating to the Certificates to the successor Paying Agent/Registrar.

ARTICLE VI

FORM OF THE CERTIFICATES

Section 6.01. Form Generally.

(a) The Certificates, including the Registration Certificate of the Comptroller of Public Accounts of the State of Texas to accompany the Initial Certificate, the Certificate of the Paying Agent/Registrar, and the Assignment form to appear on each of the Certificates, (i) shall be substantially in the form set forth in this Article, with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance, and (ii) may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as, consistently herewith, may be determined by the City or by the officers executing such Certificates, as evidenced by their execution thereof.

(b) Any portion of the text of any Certificates may be set forth on the reverse side thereof, with an appropriate reference thereto on the face of the Certificates.

(c) The definitive Certificates shall be typewritten, printed, lithographed, or engraved, and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Certificates, as evidenced by their execution thereof.

(d) The Initial Certificate submitted to the Attorney General of the State of Texas may be typewritten and photocopied or otherwise reproduced.

Section 6.02. Form of the Certificates.

The form of the Certificates, including the form of the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, to accompany the Initial Certificate, the form of Certificate of the Paying Agent/Registrar and the form of Assignment appearing on the Certificates, shall be substantially as follows:

(a) Form of Certificates.

REGISTERED
No. _____

REGISTERED
$_____

United States of America
State of Texas

CITY OF HORSESHOE BAY, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2016

INTEREST RATE:	MATURITY DATE:	CLOSING DATE:	CUSIP NUMBER:
_____%	August 15, ____	_____, 2016	_____

The City of Horseshoe Bay, Texas (the "City"), located in the Counties of Llano and Burnet, State of Texas, for value received, hereby promises to pay to

_____

or registered assigns, on the Maturity Date specified above, the sum of

_____ DOLLARS

unless this Certificate shall have been sooner called for redemption and the payment of the principal hereof shall have been paid or provided for, and to pay interest on such principal amount from the later of the Closing Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15, commencing August 15, 2017.

The principal of this Certificate shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Certificate at the designated office in Austin, Texas, of BOKF, NA, Austin, Texas as Paying Agent/Registrar (the "Designated Payment/Transfer Office"), or, with respect to a successor paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Certificate is payable by check dated as of the interest payment date, and will be mailed on or before such interest payment date, by first class United States mail, postage prepaid, by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar, or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. For the purpose of the payment of interest on this Certificate, the registered owner shall be the person in whose name this Certificate is registered at the close of business on the "Record Date," which shall be the last Business Day of the month next preceding such interest payment date; provided, however, that in the event of nonpayment of interest on a

scheduled interest payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which date shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) Business Days (as hereinafter defined) prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of an Certificate appearing on the 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.

If the date for the payment of the principal of or interest on this Certificate is not a Business Day, the date for such payment shall be the next succeeding day which is not a Saturday, Sunday or legal holiday, or day on which banking institutions in the State of Texas or the city in which the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are generally authorized or obligated by law or executive order to close (a "Business Day"), and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

This Certificate is one of a series of fully registered obligations specified in the title hereof issued in the aggregate principal amount of $_____ (herein referred to as the "Certificates"), dated as of September 15, 2016, issued pursuant to a certain ordinance of the City (the "Ordinance") for the purpose of paying contractual obligations to be incurred for authorized public improvements (the "Project"), as described in the Ordinance, and to pay the contractual obligations for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

The City has reserved the option to redeem the Certificates maturing on or after August 15, 20__ in whole or in part before their respective scheduled maturity dates, on August 15, 20__ or on any date thereafter, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date fixed for redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot the Certificates, or portions thereof, within such maturity and in such principal amounts, for redemption.

The Certificates stated to mature on August 15, 20__ (the "Term Certificates") are subject to scheduled mandatory redemption and will be redeemed by the City, in part at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on August 15 in the years and in the respective principal amounts as set forth in the Ordinance.

At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed and shall call such Term Certificates for redemption on such scheduled mandatory redemption date.

The principal amount of the Term Certificates required to be redeemed on any mandatory sinking fund redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to an optional redemption and not previously credited to a mandatory sinking fund redemption.

Notice of such redemption or redemptions shall be given by first class mail, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the registered owner of each of the Certificates to be redeemed in whole or in part. Notice having been so given, the Certificates or portions thereof designated for redemption shall become due and payable on the redemption date specified in such notice; and, from and after such date, notwithstanding that any of the Certificates or portions thereof so called for redemption shall not have been surrendered for payment, interest on such Certificates or portions thereof shall cease to accrue.

In the Ordinance, the City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificates subject to a conditional notice of redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional notice of redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default. Any notice so mailed shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. Notice having been so given and subject, in the case of an optional redemption, to any rights or conditions reserved by the City in the notice, the certificates called for redemption shall become due and payable on the specified redemption date, and notwithstanding that any obligation or portion thereof has not been surrendered for payment, interest on such obligation or portion thereof shall cease to accrue.

As provided in the Ordinance, and subject to certain limitations therein set forth, this Certificate is transferable upon surrender of this Certificate for transfer at the Designated Payment/Transfer Office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Certificates of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Certificate called for redemption where such redemption is scheduled to occur within forty-five (45) calendar days of the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Certificate.

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name this Certificate is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Certificate is registered on the "Record Date" or "Special Record Date," as applicable) and for all other purposes, whether or not this Certificate be overdue, and neither the City, nor the Paying Agent/Registrar nor any other person shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Certificate and the series of which it is a part is duly authorized by law and that all acts, conditions and things required to be done precedent to and in the issuance of the Certificates have been properly done and performed and have happened in regular and due time, form and manner, as required by law; and that ad valorem taxes upon all taxable property in the City have been levied for and pledged to the payment of the debt service requirements of the Certificates, within the limit prescribed by law; that, in addition to said taxes, further provisions have been made for the payment of the debt service requirements of the Certificates by pledging to such purpose Surplus Revenues, as defined in the Ordinance, derived by the City from the operation of its water and wastewater system in an amount limited to $1,000; that when so collected, such taxes and Surplus Revenues shall be appropriated to such purposes; and that the total indebtedness of the City, including the Certificates, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City has caused this Certificate to be executed by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Secretary of the City, and the official seal of the City has been duly impressed or placed in facsimile on this Certificate.

City Secretary City of Horseshoe Bay, Texas	Mayor City of Horseshoe Bay, Texas

[SEAL]

(b) Form of Comptroller's Registration Certificate.

The following Comptroller's Registration Certificate may be deleted from the definitive Certificates if such certificate on the Initial Certificate is fully executed.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER	§	
OF PUBLIC ACCOUNTS	§	REGISTER NO. _____
OF THE STATE OF TEXAS	§	

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Certificate has been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of the City of Horseshoe Bay, Texas, and that this Certificate has this day been registered by me.

Witness my hand and seal of office at Austin, Texas, _____.

_____
Comptroller of Public Accounts
of the State of Texas

[SEAL]

(c) Form of Certificate of Paying Agent/Registrar.

The following Certificate of Paying Agent/Registrar may be deleted from the Initial Certificate if the executed Comptroller's Registration Certificate appears thereon.

CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Certificate of this series of certificates of obligation was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and that this is one of the Certificates referred to in the within-mentioned Ordinance.

BOKF, NA,
as Paying Agent/Registrar

Dated: _____

By: _____
Authorized Signatory

(d) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address and Zip Code of transferee):

_____

_____

(Social Security or other identifying number: _____) the within Certificate and all rights hereunder and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Certificate on the books kept for registration hereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed By:

_____
Authorized Signatory

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Certificate in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

(e) The Initial Certificate shall be in the form set forth in paragraphs (a), (b) and (d) of this Section, except for the following alterations:

(i) immediately under the name of the Certificate, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As shown below" and the words "CUSIP NUMBER" deleted; and

(ii) in the first paragraph of the Certificate, the words "on the Maturity Date specified above the sum of _____ DOLLARS," shall be deleted and the following will be inserted: "on August 15 in each of the years, in the principal installments and bearing interest at the per annum rates in accordance with the following schedule:

Year	Principal Amount	Interest Rate
	(Information to be inserted from schedule in Section 3.02 of this Ordinance)	

Section 6.03. CUSIP Registration.

The City may secure identification numbers through the CUSIP Service Bureau Division of Standard & Poor's Corporation, New York, New York, and may authorize the printing of such numbers on the face of the Certificates. It is expressly provided, however, that the presence or

absence of CUSIP numbers on the Certificates shall be of no significance or effect as regards the legality thereof and neither the City nor the attorneys approving said Certificates as to legality are to be held responsible for CUSIP numbers incorrectly printed on the Certificates.

Section 6.04. Legal Opinion.

The approving legal opinion of Bracewell LLP, Bond Counsel, may be printed on the reverse side of or attached to each Certificate over the certification of the City Secretary of the City, which may be executed in facsimile.

Section 6.05. Statement of Insurance.

A statement relating to a municipal bond insurance policy, if any, to be issued for the Certificates may be printed on or attached to each Certificate.

ARTICLE VII

SALE AND DELIVERY OF CERTIFICATES; OFFICIAL STATEMENT; DEPOSIT OF PROCEEDS

Section 7.01. Sale of Certificates.

(a) The Certificates are hereby sold and awarded and shall be delivered to the Underwriter at the price and on the terms specified in the Purchase Agreement. The form, terms and provisions of the Purchase Agreement are hereby approved and the Mayor or Mayor Pro Tem is hereby authorized and directed to execute and deliver such Purchase Agreement. It is hereby found, determined and declared that the terms of this sale are the most advantageous reasonably available. The Certificates shall be initially registered in the name of the Underwriter or its designee.

(b) All officers of the City are authorized to execute such documents, certificates and receipts, and to make such elections with respect to the tax-exempt status of the Certificates, as they may deem appropriate in order to consummate the delivery of the Certificates. Further, in connection with the submission of the record of proceedings for the Certificates to the Attorney General of the State of Texas for examination and approval of such Certificates, the appropriate officer of the City is hereby authorized and directed to issue a check of the City payable to the Attorney General of the State of Texas as a nonrefundable examination fee in the amount required by Chapter 1202, Texas Government Code (such amount to be the lesser of (i) 1/10th of 1% of the principal amount of the Certificates or (ii) $9,500.

Section 7.02. Deposit of Proceeds.

Proceeds from the sale of the Certificates shall, promptly upon receipt by the City, be applied as follows:

(a) Certificate proceeds in the amount of $_____ shall be used for the purposes set forth in Section 3.01.

(b) Certificate proceeds in the amount of $_____ shall be used to pay the costs of issuance provided that any amount remaining after the payment of paying costs of issuance shall be deposited for the purposes described in subsection (a) above.

(c) Any Certificate proceeds not used for the purposes described in subsections (a) and (b) above shall be deposited to the Interest and Sinking Fund.

Section 7.03. Control and Delivery of Certificates.

(a) The Mayor of the City is hereby authorized to have control of the Initial Certificate and all necessary records and proceedings pertaining thereto pending investigation, examination and approval of the Attorney General of the State of Texas, registration by the Comptroller of Public Accounts of the State of Texas and registration with, and initial exchange or transfer by, the Paying Agent/Registrar.

(b) After registration by the Comptroller of Public Accounts of the State of Texas, delivery of the Certificates shall be made to the Underwriter under and subject to the general supervision and direction of the Mayor, against receipt by the City of all amounts due to the City under the terms of sale.

(c) In the event the Mayor or City Secretary is absent or otherwise unable to execute any document or take any action authorized herein, the Mayor Pro Tem and the Assistant City Secretary, respectively, shall be authorized to execute such documents and take such actions, and the performance of such duties by the Mayor Pro Tem and the Assistant City Secretary shall for the purposes of this Ordinance have the same force and effect as if such duties were performed by the Mayor and City Secretary, respectively.

Section 7.04. Official Statement.

The form and substance of the Preliminary Official Statement, and any addenda, supplement or amendment thereto, and the final Official Statement (the "Official Statement") presented to and considered at this meeting, are hereby in all respects approved and adopted, and the Preliminary Official Statement is hereby deemed final as of its date (except for the omission of pricing and related information) within the meaning and for the purposes of paragraph (b)(1) of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The Mayor and City Secretary of the City are hereby authorized and directed to execute the same and deliver appropriate numbers of copies thereof to the Underwriter. The Official Statement as thus approved and delivered, with such appropriate variations as shall be approved by the Mayor of the City and the Underwriter, may be used by the Underwriter in the public offering and sale thereof. The use and distribution of the Preliminary Official Statement in the public offering of the Certificates by the Underwriter is hereby ratified, approved and confirmed. The City Secretary is hereby authorized and directed to include and maintain a copy of the Official Statement and any addenda, supplement or amendment thereto thus approved among the permanent records of this meeting. The use and distribution of the Official Statement and the preliminary public offering of the Certificates by the Underwriter is hereby ratified, approved and confirmed.

ARTICLE VIII

INVESTMENTS

Section 8.01. Investments.

(a) Money in the Interest and Sinking Fund created by this Ordinance, at the option of the City, may be invested in such securities or obligations as permitted under applicable law as in effect on the date of the investment.

(b) Any securities or obligations in which money in the Interest and Sinking Fund is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the Interest and Sinking Fund.

Section 8.02. Investment Income.

(a) Interest and income derived from investment of the Interest and Sinking Fund shall be credited to such Fund.

(b) Interest and income derived from the investment of funds deposited pursuant to Section 7.02 hereof shall be credited to the fund or account where deposited until completion of the Project; thereafter, to the extent such interest and income are present, such interest and income shall be deposited to the Interest and Sinking Fund.

ARTICLE IX

PARTICULAR REPRESENTATIONS AND COVENANTS

Section 9.01. Payment of the Certificates.

On or before each Interest Payment Date for the Certificates and while any of the Certificates are outstanding and unpaid, there shall be made available to the Paying Agent/Registrar, out of the Interest and Sinking Fund, money sufficient to pay such interest on and principal of the Certificates as will accrue or mature on the applicable Interest Payment Date, maturity date or date of prior redemption. Such transfer of funds shall be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar not later than the close of business on the Business Day next preceding the date of payment for the Certificates.

Section 9.02. Other Representations and Covenants.

(a) The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance and in each Certificate; the City will promptly pay or cause to be paid the principal of and interest on each Certificate on the dates and at the places and manner prescribed in such Certificate; and the City will, at the times and in the manner prescribed by this Ordinance, deposit or cause to be deposited the amounts of money specified by this Ordinance.

(b) The City is duly authorized under the laws of the State of Texas to issue the Certificates; all action on its part for the creation and issuance of the Certificates has been duly and effectively taken; and the Certificates in the hands of the Owners thereof are and will be valid and enforceable obligations of the City in accordance with their terms.

Section 9.03. Provisions Concerning Federal Income Tax Exclusion.

The City intends that the interest on the Certificates be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Code. The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would (i) cause the interest on the Certificates to be includable in gross income, as defined in section 61 of the Code, for federal income tax purposes or (ii) result in the violation of or failure to satisfy any provision of Section 103 and 141 through 150 of the Code. In particular, the City covenants and agrees to comply with each requirement of Sections 9.03 through 9.12, inclusive; provided, however, that the City will not be required to comply with any particular requirement of Sections 9.03 through 9.12, inclusive, if the City has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that (i) such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Certificates or (ii) compliance with some other requirement will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in Sections 9.03 through 9.12, inclusive.

Section 9.04. No Private Use or Payment and No Private Loan Financing.

The City will certify, through an authorized officer, employee or agent, that, based upon all facts and estimates known or reasonably expected to be in existence on the date the Certificates are delivered, the proceeds of the Certificates will not be used in a manner that would cause the Certificates to be "private activity bonds" within the meaning of section 141 of the Code. The City covenants and agrees that it will make such use of the proceeds of the Certificates, including interest or other investment income derived from Certificate proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Certificates will not be "private activity bonds" within the meaning of section 141 of the Code.

Section 9.05. No Federal Guarantee.

The City covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Certificates to be "federally guaranteed" within the meaning of section 149(b) of the Code, except as permitted by section 149(b)(3) of the Code.

Section 9.06. No Hedge Bonds.

The City covenants and agrees not to take any action, or knowingly omit to take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Certificates to be "hedge bonds" within the meaning of section 149(g) of the Code.

Section 9.07. No-Arbitrage Covenant.

The City will certify, through an authorized officer, employee or agent, that, based upon all facts and estimates known or reasonably expected to be in existence on the date the Certificates are delivered, the proceeds of the Certificates will not be used in a manner that would cause the Certificates to be "arbitrage bonds" within the meaning of section 148(a) of the Code. Moreover, the City covenants and agrees that it will make such use of the proceeds of the Certificates including interest or other investment income derived from Certificate proceeds, regulate investments of proceeds of the Certificates, and take such other and further action as may be required so that the Certificates will not be "arbitrage bonds" within the meaning of section 148(a) of the Code.

Section 9.08. Arbitrage Rebate.

If the City does not qualify for an exception to the requirements of Section 148(f) of the Code, the City will take all necessary steps to comply with the requirement that certain amounts earned by the City on the investment of the "gross proceeds" of the Certificates (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the City will (i) maintain records regarding the investment of the gross proceeds of the Certificates as may be required to calculate the amount earned on the investment of the gross proceeds of the Certificates separately from records of amounts on deposit in the funds and accounts of the City allocable to other bond issues of the City or moneys that do not represent gross proceeds of any bonds of the City, (ii) calculate at such times as are required by the Regulations, the amount earned from the investment of the gross proceeds of the Certificates that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Certificates or on such other dates as may be permitted under the Regulations, all amounts required to be rebated to the federal government. Further, the City will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Certificates that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

Section 9.09. Information Reporting.

The City covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Certificates are issued, an information statement concerning the Certificates, all under and in accordance with section 149(e) of the Code.

Section 9.10. Record Retention.

The City will retain all pertinent and material records relating to the use and expenditure of the proceeds of the Certificates until three years after the last Certificate is redeemed, or such shorter period as authorized by subsequent guidance issued by the Department of Treasury, if

applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided that such electronic system includes reasonable controls and quality assurance programs that assure the ability of the City to retrieve and reproduce such books and records in the event of an examination of the Certificates by the Internal Revenue Service.

Section 9.11. Registration.

The Certificates will be issued in registered form.

Section 9.12. Deliberate Actions.

The City will not take a deliberate action (as defined in section 1.141-2(d)(3) of the Regulations) that causes the Certificates to fail to meet any requirements of the Code regarding the use of Certificate proceeds after the issue date of the Certificates unless an appropriate remedial action is permitted by section 1.141-12 of the Regulations, the City takes such remedial action and the City receives a Counsel's Opinion that such remedial action cures any failure to meet the requirements with respect to the use of the proceeds of the Certificates.

Section 9.13. Qualified Tax-Exempt Obligations.

The City hereby designates the Bonds as "qualified tax-exempt obligations" for purposes of section 265(b) of the Code. In connection therewith, the City represents (a) that the aggregate amount of tax-exempt obligations issued by the City during calendar year 2016, including the Bonds, that have been designated as "qualified tax-exempt obligations" under section 265(b)(3) of the Code does not exceed $10,000,000, and (b) that the reasonably anticipated amount of its tax-exempt obligations that will be issued by the City during calendar year 2016, including the Bonds, will not exceed $10,000,000. For purposes of this Section 9.13, the term "tax-exempt obligations" does not include (i) "private activity bonds" within the meaning of section 141 of the Code, other than "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code or (ii) obligations issued to currently refund any obligation to the extent that the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation. In addition, for purposes of this Section 9.13, the City includes all entities that are aggregated with the City under the Code.

Section 9.14. Continuing Obligation.

Notwithstanding any other provision of this Ordinance, the City's obligations under the covenants and provisions of Sections 9.03 through 9.12, inclusive, will survive the defeasance and discharge of the Certificates for as long as such matters are relevant to the exclusion from gross income of interest on the Certificates for federal income tax purposes.

ARTICLE X

DEFAULT AND REMEDIES

Section 10.01. Events of Default.

Each of the following occurrences or events for the purpose of this Ordinance is hereby declared to be an Event of Default:

(i) the failure to make payment of the principal of or interest on any of the Certificates when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with this Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any Owner to the City.

Section 10.02. Remedies for Default.

(a) Upon the happening of any Event of Default, then any Owner or an authorized representative thereof, including but not limited to, a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(b) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Certificates then outstanding.

Section 10.03. Remedies Not Exclusive.

(a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Certificates or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Certificates shall not be available as a remedy under this Ordinance.

(b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

ARTICLE XI

DISCHARGE

Section 11.01. Discharge.

The Certificates may be refunded, discharged or defeased in any manner permitted by applicable law.

ARTICLE XII

CONTINUING DISCLOSURE UNDERTAKING

Section 12.01. Annual Reports.

(a) The City shall provide annually to the MSRB within six (6) months after the end of each Fiscal Year, financial information and operating data with respect to the City of the general type included in the final Official Statement, being the information described in Exhibit A hereto. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit A hereto, and (ii) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the City shall provide notice that audited financial statements are not available and shall provide unaudited financial statements for the applicable Fiscal Year to the MSRB. Thereafter, when and if audited financial statements become available, the City shall provide such audited financial statements as required to the MSRB.

(b) If the City changes its Fiscal Year, it will notify the MSRB of the change (and of the date of the new Fiscal Year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

(c) The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB or filed with the SEC.

Section 12.02. Event Notices.

(a) The City shall provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner and not more than 10 business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

(ii) nonpayment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;

(vii) modifications to rights of Owners, if material;

(viii) bond calls, if material and tender offers;

(ix) defeasance;

(x) release, substitution, or sale of property securing repayment of the Certificates, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below;

(xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material.

For these purposes, any event described in the immediately preceding clause (xii) 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 of business of the City.

(b) The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with Section 12.01 of this Ordinance by the time required by such Section.

Section 12.03. Limitations, Disclaimers and Amendments.

(a) The City shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the City remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give notice of any deposit made in accordance with Article XI that causes Certificates no longer to be Outstanding.

(b) The provisions of this Article are for the sole benefit of the Owners and beneficial owners of the Certificates, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY CERTIFICATE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(c) No default by the City in observing or performing its obligations under this Article shall comprise a breach of or default under the Ordinance for purposes of any other provisions of this Ordinance.

(d) Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

(e) The provisions of this Article may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (i) the provisions of this Article, as so amended, would have permitted an Underwriter to purchase or sell Certificates in the primary offering of the Certificates 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 Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of this Ordinance that

authorizes such an amendment) of the Outstanding Certificates consent to such amendment or (B) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Certificates. The provisions of this Article may also be amended from time to time or repealed by the City if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the City's right to do so would not prevent the Underwriter of the initial public offering of the Certificates from lawfully purchasing or selling Certificates in such offering. If the City so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 12.02 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

ARTICLE XIII

AMENDMENTS TO ORDINANCE

Section 13.01. Amendments to Ordinance.

The City may, without the consent of or notice to the Owners, from time to time and at any time amend this Ordinance in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of the Owners of a majority in aggregate principal amount of the Certificates then outstanding, amend, add to or rescind any of the provisions of this Ordinance; provided, that, without the consent of the Owners of all Certificates then outstanding, no such amendment, addition, or rescission shall:

(a) affect the rights of the Owners of less than all of the Certificates then outstanding;

(b) make any change in the maturities of the Certificates;

(c) reduce the rate of interest borne by any of the Certificates;

(d) reduce the amount of the principal payable on the Certificates;

(e) modify the terms of payment of principal of or interest on the Certificates or impose any conditions with respect to such payment; or

(f) change the minimum percentage of the principal amount of Certificates necessary for consent to such amendment.

Certificates owned or held by or for the account of or for the benefit of the City shall not be deemed to be outstanding for the purpose of amending this Ordinance.

ARTICLE XIV

EFFECTIVE IMMEDIATELY

Section 14.01. Effective Immediately.

This Ordinance shall become effective immediately upon its adoption at this meeting pursuant to Section 1201.028, Texas Government Code.

APPROVED this 20th day of September, 2016.

_____

Mayor, City of Horseshoe Bay, Texas

ATTEST:

_____

City Secretary, City of Horseshoe Bay, Texas

EXHIBIT A

DESCRIPTION OF ANNUAL DISCLOSURE OF FINANCIAL INFORMATION

The following information is referred to in Article XII of this Ordinance.

Annual Financial Statements and Operating Data

The financial information and operating data with respect to the City to be provided annually in accordance with such Article are as specified (and included in the Appendix or other headings of the Official Statement referred to) below:

1. The portions of the financial statements of the City appended to the Official Statement as Appendix B, but for the most recently concluded Fiscal Year.

2. Statistical and financial data set forth in Tables numbered 1 through 6 and 8 through 11, each inclusive.

Accounting Principles

The accounting principles referred to in such Article are the accounting principles described in the notes to the financial statements referred to in Paragraph 1 above.

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

PRELIMINARY OFFICIAL STATEMENT

Dated September 13, 2016

Rating:
S&P: "AA+"
(See "OTHER INFORMATION – Rating" herein)

NEW ISSUE – Book-Entry-Only

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

THE CERTIFICATES **ARE EXPECTED TO BE** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$4,020,000*
CITY OF HORSESHOE BAY, TEXAS
(Burnet and Llano Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2016

Dated Date: September 15, 2016
Interest Accrues from Date of Initial Delivery

Due: August 15, as shown on the inside cover page

PAYMENT TERMS . . . Interest on the $4,020,000* City of Horseshoe Bay, Texas Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Certificates") will accrue from the date of initial delivery of the Certificates, will be payable on August 15 and February 15 of each year commencing August 15, 2017, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – Book-Entry-Only System"). The initial Paying Agent/Registrar is BOKF, N.A., Austin, Texas (see "THE CERTIFICATES – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended. The Certificates constitute direct obligations of the City of Horseshoe Bay, Texas (the "City"), payable from the levy and collection of a continuing, direct annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge of not to exceed $1,000 of the surplus revenues of the City's water and wastewater system as provided in the ordinance authorizing the issuance of the Certificates (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance" and "THE CERTIFICATES – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of (i) acquiring, constructing, improving and expanding the City's water and wastewater system; (ii) acquisition of two fire engines and related equipment; and (iii) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

CUSIP PREFIX: 440752
MATURITY SCHEDULE
See Inside Cover Page

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

DELIVERY . . . It is expected that the Certificates will be available for initial delivery through DTC on October 13, 2016.

BAIRD

*Preliminary, subject to change.

MATURITY SCHEDULE*

Maturity (August 15)	Amount	Interest Rate	Initial Yield	CUSIP Numbers[1]
2017	$ 180,000			
2018	280,000			
2019	285,000			
2020	290,000			
2021	295,000			
2022	300,000			
2023	305,000			
2024	315,000			
2025	320,000			
2026	330,000			
2027	210,000			
2028	215,000			
2029	225,000			
2030	230,000			
2031	240,000			

(Interest Accrues from the Date of Initial Delivery)

*Preliminary, subject to change.

(1) 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 LLC 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. CUSIP numbers are included herein solely for the convenience of the owners of the Certificates. Neither the City, the Financial Advisor nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2026, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption"). Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Underwriter elects to aggregate two or more maturities as Term Certificates.

[The remainder of this page intentionally left blank.]

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes an official statement of the City with respect to the Certificates that has been "deemed final" by the City as of its date except for the omission of the information permitted by Subsection (b)(1) of the Rule.

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

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized.

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

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

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

NEITHER THE CITY NOR ITS FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Horseshoe Bay, Texas (the "City"), is a political subdivision located in Burnet and Llano Counties, operating as a home-rule city under the laws of the State of Texas (the "State") and was incorporated in 2005. The City is approximately 14 square miles in area (see "INTRODUCTION – Description of the City").
THE CERTIFICATES	The Certificates are issued as $4,020,000* Combination Tax and Revenue Certificates of Obligation, Series 2016. The Certificates are issued as serial Certificates maturing on August 15 in the years 2017 through and including 2031, unless the Underwriter designates one or more maturities as Term Certificates (see "THE CERTIFICATES – Description of the Certificates").
PAYMENT OF INTEREST	Interest on the Certificates accrues from the date of initial delivery, and is payable on August 15, 2017, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES – Description of the Certificates" and "THE CERTIFICATES – Optional Redemption").
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City (see "THE CERTIFICATES – Authority for Issuance").
SECURITY	The Certificates constitute direct obligations of the City, payable from the levy and collection of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and a limited pledge of not to exceed $1,000 of the surplus revenues of the City's water and wastewater system, after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City's water and wastewater system as provided in the Ordinance (see "THE CERTIFICATES – Security and Source of Payment").
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2026, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption"). Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Underwriter elects to aggregate two or more maturities as Term Certificates.
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law the interest on the Certificates is excludable from gross income for federal income tax purposes and the Certificates are not private activity bonds. See "TAX MATTERS – Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.
QUALIFIED TAX-EXEMPT OBLIGATIONS	The City expects to designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS – Purchase of Tax-Exempt Obligations by Financial Institutions").
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for the purpose of (i) acquiring, constructing, improving and expanding the City's water and wastewater system; (ii) acquisition of two fire engines and related equipment; and (iii) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

*Preliminary, subject to change.

RATING ..... The Certificates and the outstanding debt of the City are rated "AA+" by S&P Global Ratings ("S&P") without regard to credit enhancement. See "OTHER INFORMATION – Rating."

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population [1]	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year [2]	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita	% of Total Tax Collections
2012	6,470	$1,548,335,102	$ 239,310	$ 5,760,000	0.37%	$ 890	99.49%
2013	6,600	1,560,345,423	236,416	5,505,000	0.35%	834	98.84%
2014	6,600	1,571,197,550	238,060	10,455,000	0.67%	1,584	99.90%
2015	6,711	1,636,186,819	243,807	10,075,000	0.62%	1,501	99.49%
2016	6,711	1,691,718,253	252,081	9,660,000	0.57%	1,439	99.12% [4]
2017	6,711	1,765,878,202	263,132	10,265,000 [3]	0.58%	1,530	N/A

(1) Source: The City. Total includes full-time and part-time residents.
(2) Excludes self-supporting debt. See "Table 1 – Valuation, Exemptions and General Obligation Debt – Footnote 2."
(3) Includes the Certificates. Preliminary, subject to change.
(4) Partial collections as of July 31, 2016.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Council Member	Length of Service	Term Expires
Steve Jordan Mayor	3 Years	November 2017
Craig Haydon Mayor Pro-Tem	4 Years	November 2016
David Pope Councilmember	4 Years	November 2016
Cynthia Clinesmith Councilmember	1 Year	November 2017
Jerry Gray Councilmember	2 Years	November 2016
Reagan Lambert Councilmember	1 Year	November 2017

APPOINTED OFFICIALS

Name	Position
Stan R. Farmer	City Manager
Larry Anderson	Finance Director
Teresa L. Moore, TMRC	City Secretary

CONSULTANTS AND ADVISORS

Auditors ..... Neffendorf, Knopp, Doss & Company, P.C.
Certified Public Accountants
Fredericksburg, Texas

Bond Counsel ..... Bracewell LLP
Austin, Texas

Financial Advisor ..... Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Stan R. Farmer City Manager City of Horseshoe Bay P.O. Box 7765 Horseshoe Bay, Texas 78657-7765 830/598-9940	or	Jennifer Douglas Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 512/275-7300

OFFICIAL STATEMENT

RELATING TO

$4,020,000*
CITY OF HORSESHOE BAY, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2016

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $4,020,000* Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Certificates"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the "Ordinance") to be adopted on the date of sale of the Certificates which will authorize the issuance of the Certificates.

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

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter and was incorporated in 2005. The City operates under the Council/Manager form of government where the Mayor and five Councilmembers are elected for staggered two-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, sanitation services, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The estimated 2016 population is 6,711, which includes full-time and part-time residents. The City covers approximately 14 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated September 15, 2016, bear interest from the date of initial delivery to the Underwriter and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Certificates will accrue from the date of initial delivery, 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, 2017 until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the book-entry-only system described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to the levy and collection of a continuing, direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates. The Certificates are also secured by a limited pledge of not to exceed $1,000 of the surplus revenues of the City's water and wastewater system remaining after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City's water and wastewater system.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities to $2.50 per $100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service calculated at the time of issuance based on 90% tax collections.

*Preliminary, subject to change.

Optional Redemption . . . The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after August 15, 2026, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates or portions thereof, within such maturity to be redeemed. Subject to the right of the City to give notice of a redemption conditioned on future events, as described below, if a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

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

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

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised or any such notice.

Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. See "Book-Entry-Only System" herein.

Defeasance . . . The Ordinance provides that the Certificates may be discharged, defeased or refunded in any manner permitted by law.

Book-Entry-Only System . . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they

will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Certificate.

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

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any Registered Owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may

be sought if there is no other available remedy at law to compel performance under the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental 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 governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Certificates 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 Certificates.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of bond counsel will note that all opinions with respect to the rights of the registered owners of the Certificates are subject to the applicable provisions of federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right, without the consent of or notice to the owners, from time to time and at any time amend the Ordinance in any manner not detrimental to the interests of the owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of the owners of a majority in aggregate principal amount of the Certificates then outstanding, amend, add to or rescind any of the provisions of the Ordinance; provided, that, without the consent of the owners of all Certificates then outstanding, no such amendment, addition, or rescission shall:

(a) affect the rights of the owners of less than all of the Certificates then outstanding;
(b) make any change in the maturities of the Certificates;
(c) reduce the rate of interest borne by any of the Certificates;
(d) reduce the amount of the principal payable on the Certificates;
(e) modify the terms of payment of principal of or interest on the Certificates or impose any conditions with respect to such payment; or
(f) change the minimum percentage of the principal amount of Certificates necessary for consent to such amendment.

Certificates owned or held by or for the account of or for the benefit of the City shall not be deemed to be outstanding for the purpose of amending the Ordinance.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of (i) acquiring, constructing, improving and expanding the City's water and wastewater system; (b) acquisition of two fire engines and related equipment; and (c) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Certificates will be applied approximately as follows:

SOURCES OF FUNDS:	
Par Amount of Certificates	
Reoffering Premium	
Total Sources of Funds	
USES OF FUNDS:	
Deposit to Project Construction Fund	
Deposit to Debt Service Fund	
Underwriter's Discount	
Costs of Issuance	
Total Uses of Funds	

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Burnet Central Appraisal District and Llano Central Appraisal District (the "Appraisal Districts"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal Districts is required under the Texas Property Tax Code to appraise all property within the Appraisal Districts 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 not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal Districts is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the applicable Appraisal District.

The Appraisal Districts are required to review the value of property within the Appraisal Districts 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 respective Appraisal Review Board.

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

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

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

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

Under Article VIII, Section 1-b(h) and State law, a city at its option may provide a prohibition on increasing the total ad valorem tax, except for increases attributable to certain improvements, on the residence homestead of a disabled person or person 65 years of age or older above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the city chooses to establish the tax limitation. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. 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 limitation may not be repealed or rescinded.

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

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 Section 1-d-1.

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

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VII, 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.

Article VIII, Section 1-I, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

The City may create one or more tax increment financing zones within the City ("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 such tax abatement 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. A tax abatement agreement could last for a period of up to 10 years.

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

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or 103% of the effective tax rate until a public hearing is held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Property Assessment and Tax Payment . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years 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:

Month	Cumulative Penalty	Cumulative Interest	Total
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, up to 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 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 has not granted an exemption to the market value of the residence homestead of persons 65 years of age or older.

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

See Table 1 for a listing of the amounts of the exemptions described above.

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 Burnet and Llano County Tax Assessor/Collectors collect taxes for the City.

The City does permit split payments, and discounts are allowed.

The City does not tax freeport property.

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.

The City does not participate in any tax increment financing zones.

TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2016/17 Market Valuation Established by Llano and Burnet County Appraisal Districts (excluding totally exempt property)		$ 1,892,159,709
Less Exemptions/Reductions at 100% Market Value:		126,281,507
2016/17 Taxable Assessed Valuation		$ 1,765,878,202
City Funded Debt Payable from Ad Valorem Taxes (as of 8-1-2016)	$ 21,770,000	
The Certificates	4,020,000 (1)	
Total Debt Payable from Ad Valorem Taxes		25,790,000
Less: Self-Supporting Debt		(15,100,000) (2)
Net Debt Payable from Ad Valorem Taxes		$ 10,690,000
Interest and Sinking Fund (as of 8-1-2016)		$ 284,684
Ratio Tax Supported Debt to Taxable Assessed Valuation		0.61%

2016 Estimated Population - 6,711
Per Capita Taxable Assessed Valuation - $263,132
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - $1,593

(1) Preliminary, subject to change.
(2) 100% of General Obligation Refunding Bonds, Series 2007 (the "2007 Bonds") and a portion of the Combination Tax and Revenue Certificates of Obligation, Series 2011 (the "2011 Certificates") and the Combination Tax and Revenue Certificates of Obligation, Series 2014 (the "2014 Certificates") are supported with waterworks & sewer system revenues. The Certificates are partially supported by PID revenues. Except to the limited extent water and sewer system revenues are pledged to the 2011 Certificates and the 2014 Certificates, transfers of such revenues to pay debt service on the 2007 Bonds, 2011 Certificates and the 2014 Certificates are discretionary and, to the extent such discretionary transfers are not made, such debt service will be paid from ad valorem tax revenue.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population(1)	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year(2)	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2012	6,470	$ 1,548,335,102	$ 239,310	$ 5,760,000	0.37%	$ 890
2013	6,600	1,560,345,423	236,416	5,505,000	0.35%	834
2014	6,600	1,571,197,550	238,060	10,455,000	0.67%	1,584
2015	6,711	1,636,186,819	243,807	10,075,000	0.62%	1,501
2016	6,711	1,691,718,253	252,081	9,660,000	0.57%	1,439
2017	6,711	1,765,878,202	263,132	10,265,000 (3)	0.58%	1,530

(1) Source: The City. Total includes full-time and part-time residents.
(2) Excludes self-supporting debt. See "Table 1 – Valuation, Exemptions and General Obligation Debt – Footnote 2."
(3) Includes the Certificates. Preliminary, subject to change.

TABLE 3 – 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	$ 0.2500	$ 0.2220	$ 0.0280	$ 3,869,172	98.71%	99.49%
2013	0.2500	0.2220	0.0280	3,869,065	97.89%	98.84%
2014	0.2500	0.2230	0.0270	3,930,762	99.18%	99.90%
2015	0.2500	0.2220	0.0280	4,088,231	99.23%	99.49%
2016	0.2500	0.2220	0.0280	4,229,296	98.92% (1)	99.12% (1)

(1) Partial collections as of July 31, 2016.

TABLE 4 – TEN LARGEST TAXPAYERS(1)

Name of Taxpayer	2015 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Horseshoe Bay Resort	$ 41,283,030	2.44%
Summit Rock Communities LLC	14,308,229	0.85%
Manzanita Properties LLC	6,152,130	0.36%
Beeman Investment Properties Inc.	5,954,300	0.35%
Pigs Can Fly LLC	5,361,443	0.32%
RJ & Stephanie Pipkin	5,247,233	0.31%
Gordon & Margaret Hartman	5,013,050	0.30%
Steve & Sue Caperton	4,848,112	0.29%
Hulsey Living Trust	4,829,210	0.29%
John & Jayne Kendall	4,691,120	0.28%
	$ 97,687,857	5.77%

(1) Based on the aggregate 2015 Taxable Assessed Value of $1,691,718,253.

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

TABLE 5 – TAX ADEQUACY(1)

2016 Principal and Interest Requirements	$ 724,549
$ 0.0419 Tax Rate at 98% Collection Produces	$ 725,105
Average Annual Principal and Interest Requirements, 2016-2039	$ 625,298
$ 0.0362 Tax Rate at 98% Collection Produces	$ 626,463
Maximum Annual Principal and Interest Requirements, 2026	$ 867,514
$ 0.0502 Tax Rate at 98% Collection Produces	$ 868,741

(1) Preliminary, subject to change. Excludes the self-supporting debt.

DEBT INFORMATION

TABLE 6 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding G.O. Debt[1]			The Certificates[2]			Total Debt Service Requirements	LESS: Self-Supporting Debt[3]	Total Tax-Supported Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total			
2016	$ 1,055,000	$ 750,266	$ 1,805,266	$ -	$ -	$ -	$ 1,805,266	$ 1,080,717	$ 724,549
2017	1,085,000	720,955	1,805,955	180,000	88,125	268,125	2,074,080	1,329,282	744,798
2018	1,110,000	689,588	1,799,588	280,000	101,450	381,450	2,181,038	1,332,464	848,574
2019	1,145,000	657,404	1,802,404	285,000	95,850	380,850	2,183,254	1,326,956	856,299
2020	1,175,000	623,839	1,798,839	290,000	90,150	380,150	2,178,989	1,330,524	848,465
2021	1,225,000	588,279	1,813,279	295,000	84,350	379,350	2,192,629	1,337,819	854,810
2022	1,265,000	550,363	1,815,363	300,000	78,450	378,450	2,193,813	1,333,625	860,189
2023	1,300,000	510,601	1,810,601	305,000	72,450	377,450	2,188,051	1,328,375	859,676
2024	1,350,000	468,033	1,818,033	315,000	66,350	381,350	2,199,383	1,336,488	862,895
2025	1,405,000	421,182	1,826,182	320,000	60,050	380,050	2,206,232	1,342,156	864,076
2026	1,450,000	370,998	1,820,998	330,000	50,450	380,450	2,201,448	1,333,935	867,514
2027	1,505,000	318,416	1,823,416	210,000	40,550	250,550	2,073,966	1,339,115	734,851
2028	1,015,000	262,765	1,277,765	215,000	34,250	249,250	1,527,015	792,293	734,723
2029	1,055,000	225,909	1,280,909	225,000	27,800	252,800	1,533,709	795,534	738,175
2030	1,095,000	186,960	1,281,960	230,000	18,800	248,800	1,530,760	795,346	735,414
2031	430,000	159,969	589,969	240,000	9,600	249,600	839,569	524,560	315,009
2032	450,000	145,219	595,219	-	-	-	595,219	278,088	317,131
2033	465,000	129,435	594,435	-	-	-	594,435	280,670	313,765
2034	485,000	113,048	598,048	-	-	-	598,048	277,994	320,054
2035	505,000	94,581	599,581	-	-	-	599,581	279,413	320,169
2036	530,000	73,881	603,881	-	-	-	603,881	284,713	319,169
2037	550,000	53,313	603,313	-	-	-	603,313	285,000	318,313
2038	575,000	32,922	607,922	-	-	-	607,922	285,394	322,528
2039	600,000	11,250	611,250	-	-	-	611,250	285,250	326,000
	$ 22,825,000	$ 8,159,175	$ 30,984,175	$ 4,020,000	$ 918,675	$ 4,938,675	$ 35,922,851	$ 20,915,707	$ 15,007,143

(1) Includes self-supporting general obligation debt. See "Table 1 – Valuation, Exemptions and General Obligation Debt – Footnote 2."
(2) Preliminary, subject to change. Interest calculated at a true interest cost of 2.72% for purposes of illustration. Preliminary, subject to change.
(3) See "Table 1 – Valuation, Exemptions and General Obligation Debt – Footnote 2."

TABLE 7 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("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 Certificates since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Certificates, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 7-31-16
Burnet County	$ 14,845,000	2.89%	$ 429,021
Llano County	420,000	27.98%	117,516
Llano ISD	41,010,000	29.98%	12,294,798
Marble Falls ISD	67,462,934	4.91%	3,312,430
City of Horseshoe Bay	10,690,000	100.00%	10,690,000 (1)
Total Direct and Overlapping Tax Supported Debt			$ 26,843,765
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			1.59%
Per Capita Overlapping Tax Supported Debt			$ 4,000

(1) Includes the Certificates and excludes self-supporting debt. Preliminary, subject to change. See "Table 1 – Valuation, Exemptions and General Obligation Debt – Footnote 2."

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . None

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

TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2016		$ 1,805,266
2015 Interest and Sinking Fund Tax Levy @ 98% collection	$ 464,207	
Budgeted Transfer from General Fund	252,250	
Fiscal Year 2015 Interest and Sinking Fund Balance	132,092	
Self- Supported Debt Service	1,080,717	$ 1,929,266
Estimated Balance, 9-30-2016		$ 124,000

OTHER OBLIGATIONS . . . See "Notes to the Financial Statements, Note II.F., II.K. and II.N" in APPENDIX B.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through Nationwide Retirement Solutions, Inc. 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" partially Note II.H.

FINANCIAL INFORMATION

TABLE 9 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2015	2014	2013	2012	2011
Revenues:					
Taxes[1]	$ 4,918,986	$ 4,851,048	$ 4,624,575	$ 4,514,026	$ 4,939,974
Licenses and Permits	85,686	87,315	70,403	53,024	64,954
Intergovernmental Revenue and Grants	-	-	-	89,772	-
Charges for Services	1,033,371	1,121,365	703,802	219,000	208,319
Fines	87,675	49,959	41,167	47,072	36,215
Special Assessments	598,758	526,681	430,634	566,559	8,340
Investment Earnings	3,629	2,443	5,470	6,017	13,643
Rents and Royalties	9,000	8,250	9,000	9,636	9,636
Contributions & Donations from Private Sources	10,500	12,500	21,485	8,377	10,575
Other Revenue	63,105	62,050	207,243	355,006	317,842
Total Revenues	$ 6,810,690	$ 6,721,611	$ 6,113,779	$ 5,868,489	$ 5,609,498
Expenditures:					
General Government	$ 1,592,858	$ 1,442,412	$ 1,569,342	$ 1,033,771	$ 988,006
Police	1,712,123	1,698,867	1,608,817	1,525,965	1,424,018
Fire Protection	1,671,690	1,615,301	1,552,253	1,516,717	1,478,412
Highways and Streets	264,205	172,659	218,006	207,766	339,374
Public Services	487,099	449,804	-	-	-
Development Services	295,852	243,934	387,559	311,827	315,959
Capital Outlay	119,270	245,500	93,240	284,514	2,089,620
Total Expenses	$ 6,143,097	$ 5,868,477	$ 5,429,217	$ 4,880,560	$ 6,635,389
Excess (Deficiency) of Revenues over Expenditures	$ 667,593	$ 853,134	$ 684,562	$ 987,929	$ (1,025,891)
Budgeted Transfers In	$ 20,000	$ -	$ -	$ -	$ -
Sale of Real and Personal Property	-	-	-	-	-
Budgeted Transfers Out	(575,636)	(1,336,712)	(1,150,000)	(250,000)	(4,850,000)
	(555,636)	(1,336,712)	(1,150,000)	(250,000)	(4,850,000)
Net Increase (Decrease)	$ 111,957	$ (483,578)	$ (465,438)	$ 737,929	$ (5,875,891)
Fund Balance at Beginning of Year	3,355,364	3,838,942	4,304,380	3,566,451	9,442,342
Adjustments to Fund Balance	-	-	-	-	-
Fund Balance at End of Year	$ 3,467,321	$ 3,355,364	$ 3,838,942	$ 4,304,380	$ 3,566,451

Source: City's audited financial statements.

(1) Includes ad valorem tax, sales and use taxes, other taxes plus penalties paid and interest accrued on taxes.

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TABLE 10 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the office of the Comptroller of Public Accounts of the State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected [1]	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2012	$ 806,895	20.85%	$ 0.0521	$ 125
2013	937,157	24.22%	0.0601	142
2014	998,535	25.40%	0.0636	151
2015	977,438	23.91%	0.0597	146
2016	771,278 [2]	18.24%	0.0456	115

(1) The city enacted a sales tax beginning October 1, 2007 and increased the rate by 1/4% on April 1, 2010. An additional 1/4% is available for levy in the future.
(2) Collections through July 31, 2016.

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INVESTMENTS

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

LEGAL INVESTMENTS . . . Under current State law, the City is authorized to invest in: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State, (9) securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) 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 and held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with the Securities and Exchange Commission that have a dollar-weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups.

All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) market ability of each investment, (5) diversification of the portfolio, and (6) yield. The City is required to designate one or more officers or employees as investment officers to be responsible for the investment of its funds. In the administration of the duties of an investment officer, the person so designated shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person's own affairs. Unless authorized by law, a person may not deposit, withdraw, or manage in any other manner the funds of the City.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report for the period. The report must: (1) describe the investment position of the City, (2) be prepared jointly and signed by each investment officer, (3) contain a summary statement prepared in compliance with generally accepted accounting principles of each pooled fund group that states: the beginning market value, any additions and changes to market value and the ending value for the period and fully accrued interest for the reporting period, (4) state the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) state the maturity date of each separately invested asset, (6) state the account or pooled fund group for which each individual investment was acquired, and (7) state the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers shall be reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council. No person may invest City funds without express written authority from the City Council.

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

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

TABLE 11 – CURRENT INVESTMENTS

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

Investments	Market Value	% of Total
TexPool Investment Pool	$ 7,446,595	100.00%

As of such date, the market value of the investment portfolio was approximately 100.00% of its book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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TAX MATTERS

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

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

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

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

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

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

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

The Certificates will be designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Certificates, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds" or any obligations issued to currently refund any obligation to the extent that the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2016, is not expected to exceed $10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Certificates) during 2016.

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

Tax Accounting Treatment of Original Issue Discount Certificates. The issue price of all or a portion of the Certificates may be less than the stated redemption price payable at maturity of such Certificates (the "Original Issue Discount Certificates"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate constitutes original issue discount with respect to such Original Issue Discount Certificate in the hands of any owner who has purchased such Original Issue Discount Certificate in the initial public offering of the Certificates. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Certificates under the captions "TAX MATTERS – Tax Exemption" and "TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences" and "– Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Certificates for contemporaneous sale to the public and (ii) all of the Original Issue Discount Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Certificates will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Certificate accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the

accrual period) less (ii) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at www.emma.msrb.org.

Annual Reports . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables 1 through 6 and Tables 8 through 11 and in APPENDIX B. The City will update and provide this information within six months of the close of each fiscal year. The City will provide the updated information to the MSRB in an electronic format as prescribed by the MSRB.

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 . . . The City shall provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner and not more than 10 business days after the occurrence of the event: (1) principal and interest payment delinquencies; (2) nonpayment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of Owners, if material; (8) bond calls, if material and tender offers; (9) defeasance; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material.

For these purposes, any event described in the immediately preceding clause (12) 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 of business of the City.

The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the foregoing provisions by the time required therein.

Availability Of Information From MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under "Annual Reports" and "Material Event Notices" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB. The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

Should Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") be amended to obligate the City to make filing with or provide notices to entities other than the MSRB, the City agrees to undertake such obligation with respect to the Certificates in accordance with the Rule as amended.

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

The continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates in compliance with the Rule, taking into account any amendments or interpretation of the Rule since such offering as well as such changed circumstances and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Certificates consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . In FY 2015, the City timely filed its updated annual financial information tables utilizing unaudited financial information. The FY 2015 audit was completed and provided to the City in June 2016 and, upon receipt, was filed by the City, together with amended annual financial information tables reflecting audited financial information.

OTHER INFORMATION

RATING . . . The Certificates and the outstanding debt of the City has been rated "AA+" by S&P Global Ratings ("S&P") without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION – Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political

subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS . . . The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Certificates are valid and binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property within the City and a limited pledge of the surplus revenues of the City's water and wastewater system. Issuance of the Certificates is also subject to the legal opinion of Bracewell LLP ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described under the caption "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are based upon a percentage of Certificates actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Certificates. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Austin, Texas. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City.

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

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE CERTIFICATES" (except under the subcaptions "Book-Entry-Only System," "Certificatholders' Remedies" and "Sources and Uses of Proceeds"), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except the information under the subcaption "Compliance with Prior Undertakings"), and the subcaptions "Registration and Qualification of Certificates for Sale," "Legal Investment and Eligibility to Secure Public Funds in Texas," and "Legal Matters" under "OTHER INFORMATION" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions fairly and accurately describe the provisions thereof and are correct as to matters of law.

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

The Financial Advisor 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.

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

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

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

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

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Certificates to the Underwriter at closing, unless extended by the Underwriter. All information with respect to the resale of the Certificates subsequent to the "end of the underwriting period" is the responsibility of the Underwriter.

This Official Statement has been approved by the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

_____
Mayor
City of Horseshoe Bay, Texas

ATTEST:

_____
City Secretary
City of Horseshoe Bay, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City of Horseshoe Bay, Texas is a 14 square mile area located in Llano and Burnet Counties, near the City of Marble Falls, approximately 55 miles northwest of the City of Austin. Principal access to the City is by State Highway 71 and U.S. Highway 281. The Strategic Partnership Agreement between the City and Lake LBJ MUD was signed in January 1, 2006, but the actual date the City merged with Lake LBJ MUD was March 1, 2006. The City is primarily a resort and second homes development. The City's current population for 2016 is estimated at 6,711 which includes full time and part time residents.

LABOR MARKET PROFILE

	Burnet County	
	July 2016	July 2015
Total Civilian Labor Force	21,564	21,494
Total Employment	20,700	20,649
Total Unemployment	864	845
Percent Unemployed	4.0%	3.9%

	Llano County	
	July 2016	July 2015
Total Civilian Labor Force	8,552	8,360
Total Employment	8,163	7,988
Total Unemployment	389	372
Percent Unemployed	4.5%	4.4%

	State of Texas	
	July 2016	July 2015
Total Civilian Labor Force	13,386,738	13,120,456
Total Employment	12,706,976	12,487,238
Total Unemployment	679,762	633,218
Percent Unemployed	5.1%	4.8%

Source: Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE
CITY OF HORSESHOE BAY, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this APPENDIX consists of excerpts from the City of Horseshoe Bay, 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

NEFFENDORF & KNOPP, P.C.
Certified Public Accountants
P.O. BOX 874 · 736 S. WASHINGTON ST.
FREDERICKSBURG, TEXAS 78624-0874
(830) 997-3348
FAX: (830) 997-3333
Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Mayor and Council Members
City of Horseshoe Bay, Texas
Horseshoe Bay, TX 78657

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–8 and 33 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.

Neffendorf & Knopp, P.C.

NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

June 22, 2016

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–8 and 33 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.

Neffendorf & Knopp, P.C.

NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

June 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Horseshoe Bay, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2015. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $33,517,941 (net position). Of this amount, $8,913,143 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position decreased by $532,681 as a result of this period's operations.
- At September 30, 2015, the City's governmental funds reported combined ending fund balances of $3,599,413.
- At September 30, 2015, the City's Utility Fund reported unrestricted net position of $5,331,855.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 and 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (general fund) is presented as required supplementary information on page 33.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the period's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the period. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activity:

- Governmental activity - All of the City's basic services are reported here, including the public safety, public works, municipal court and administration. Property taxes, other taxes and user charges finance most of these activities.

- Business-type activity - The City's utility system is reported as a business-type activity since the fees charged to customers cover the cost of services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

The City has two kinds of funds:

- Governmental funds - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note II to the financial statements.

- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's enterprise fund (Utility) is a business-type activity and provides both long and short-term financial information.

Table II
City of Horseshoe Bay

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues:						
Charges for Services	$ 1,808	$ 1,698	$ 5,999	$ 5,740	$ 7,807	$ 7,438
Stand-by Charges					-	-
Property Tax	4,071	3,953			4,071	3,953
Other Taxes	1,285	1,322			1,285	1,322
Penalty & Interest	23	29			23	29
Investment Earnings	4	3	4	2	8	5
Miscellaneous	77	112	29	13	106	125
Total Revenue	$ 7,268	$ 7,117	$ 6,032	$ 5,755	$ 13,300	$ 12,872
Expenses:						
General Government	$ 1,704	$ 1,567	$	$	$ 1,704	$ 1,567
Police	1,845	1,823			1,845	1,823
Fire	1,792	1,761			1,792	1,761
Streets	1,147	837			1,147	837
Development Services	318	261			318	261
Mowing and Clearing	521	483			521	483
Utilities			4,701	4,420	4,701	4,420
Debt Service	331	248	472	363	803	611
Capital Outlay	105	101			105	101
Depreciation			1,439	1,483	1,439	1,483
Total Expenses	$ 7,763	$ 7,081	$ 6,612	$ 6,266	$ 14,375	$ 13,347
Increase in Net Position Before Transfers & Capital Grants	$ (495)	$ 36	$ (580)	$ (511)	$ (1,075)	$ (475)
Capital Contributions	500		42	202	542	202
Transfers	5,167		(5,167)		-	-
Change in Net Position	5,172	36	(5,705)	(309)	(533)	(273)
Net Position, Beginning	14,140	14,104	19,911	20,220	34,051	34,324
Net Position, Ending	$ 19,312	$ 14,140	$ 14,206	$ 19,911	$ 33,518	$ 34,051

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of $3,599,413. Included in this year's total change in fund balance is an increase of $111,957 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts by $265,940, and actual expenditures were less than budgeted amounts by $229,486.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2015, the City had the following amounts invested in capital assets, net of depreciation:

CAPITAL ASSETS
In thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
Land	$ 127	$ 127	$ 420	$ 420	$ 547	$ 547
Infrastructure	23,321	16,508	42,844	42,477	66,165	58,984
Machinery and Equipment	2,500	2,408	2,848	2,680	5,349	5,088
Buildings and Improvements	3,895	3,895	874	874	4,768	4,769
Construction in Progress	2,158	3,236	527	61	2,685	3,297
Total Capital Assets	$ 32,002	$ 26,174	$ 47,512	$ 46,511	$ 79,514	$ 72,685
Less: Accumulated Depreciation	(5,992)	(4,738)	(25,333)	(23,894)	(31,325)	(28,632)
Capital Assets, Net	$ 26,009	$ 21,436	$ 22,179	$ 22,617	$ 48,188	$ 44,053

This period's major additions included:

	Governmental Activities	Business Type Activities
Infrastructure	$ 192,605	$ 366,624
Machinery and Equipment	119,271	168,473
Construction In Progress	5,542,210	465,528
TOTALS	$ 5,854,086	$ 1,000,625

More detailed information about the City's capital assets is presented in Note D and E to the financial statements.

DEBT

For governmental activities, the City had $10,118,236 in combination tax and revenue bonds outstanding.

For business-type activities, the City had $12,788,092 in general obligation refunding bonds and combination tax and revenue bonds outstanding.

More detailed information about the City's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2016 budget and tax rates. The major factors are the assessed property values and population growth. These indicators were taken into account when adopting the General Fund budget for 2016. Total revenues in the General Fund budget are $6,789,250 and expenditures are estimated to be $6,738,750. The General Fund fund balance should increase by $50,500.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at P.O. Box 7765, City of Horseshoe Bay, Horseshoe Bay, Texas 78657.

BASIC FINANCIAL STATEMENTS

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	$ 324,850	$ 500,420	$ 825,270
Investments - Current	4,657,265	2,331,819	6,989,084
Receivables (net of allowance for uncollectibles)	422,034	812,499	1,234,533
Internal Balances	(1,110,286)	1,110,286	-
Inventories	-	93,982	93,982
Capitalized Debt Issuance Costs	-	152,348	152,348
Restricted Assets:			
Restricted Asset-Capital Improvements	-	516,893	516,893
Capital Assets:			
Land	127,356	419,563	546,919
Infrastructure	23,321,233	41,048,235	64,369,468
Buildings	3,894,538	873,955	4,768,493
Improvements other than Buildings	-	1,795,404	1,795,404
Machinery and Equipment	2,500,377	2,848,269	5,348,646
Accumulated Depreciation	(5,992,365)	(25,332,832)	(31,325,197)
Construction in Progress	2,158,058	526,576	2,684,634
Total Assets	30,303,060	27,697,417	58,000,477
LIABILITIES			
Accounts Payable	365,687	209,482	575,169
Accrued Interest Payable	39,123	69,503	108,626
Unearned Revenues	42,794	58,224	101,018
Other Current Liabilities	143,394	366,075	509,469
Noncurrent Liabilities			
Due Within One Year	415,000	640,000	1,055,000
Due in More Than One Year	9,974,161	12,148,092	22,122,253
Total Liabilities	10,980,159	13,491,376	24,471,535
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue - Property Taxes	11,000	-	11,000
Total Deferred Inflows of Resources	11,000	-	11,000
NET POSITION			
Net Investment in Capital Assets	15,598,520	8,874,186	24,472,706
Restricted for Debt Service	132,092	-	132,092
Unrestricted Net Position	3,581,289	5,331,855	8,913,144
Total Net Position	$ 19,311,901	$ 14,206,041	$ 33,517,942

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

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

		Program Revenues	
	Expenses	Charges for Services	Capital Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	$ 1,703,259	$ 426,764	$ -
Police	1,844,811	121,625	-
Fire Protection	1,792,278	257,436	-
Highways and Streets	1,146,781	598,738	-
Development Services	318,557	93,445	-
Mowing & Clearing	521,054	310,374	-
Bond Interest	331,499	-	-
Capital Outlay	104,724	-	500,000
Total Governmental Activities:	7,762,963	1,808,382	500,000
BUSINESS-TYPE ACTIVITIES:			
Water Utility	6,611,869	5,999,377	41,419
Total Business-Type Activities:	6,611,869	5,999,377	41,419
TOTAL PRIMARY GOVERNMENT:	$ 14,374,832	$ 7,807,759	$ 541,419

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Property Taxes, Levied for Debt Service
Sales Taxes
Other Taxes
Penalty and Interest
Grants and Contributions Not Restricted
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (1,276,495)	$ -	$ (1,276,495)
(1,723,186)	-	(1,723,186)
(1,534,842)	-	(1,534,842)
(548,043)	-	(548,043)
(225,112)	-	(225,112)
(210,680)	-	(210,680)
(331,499)	-	(331,499)
395,276	-	395,276
(5,454,581)	-	(5,454,581)
-	(571,073)	(571,073)
-	(571,073)	(571,073)
(5,454,581)	(571,073)	(6,025,654)
3,615,350	-	3,615,350
455,308	-	455,308
977,437	-	977,437
307,814	-	307,814
23,170	-	23,170
10,500	-	10,500
66,769	28,850	95,619
3,949	3,826	7,775
5,166,670	(5,166,670)	-
10,626,967	(5,133,994)	5,492,973
5,172,386	(5,705,067)	(532,681)
14,139,514	19,911,108	34,050,622
$ 19,311,900	$ 14,206,041	$ 33,517,941

EXHIBIT C-1

CITY OF HORSESHOE BAY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 287,859	$ 28,103	$ 8,888	$ 324,850
Investments - Current	4,525,173	-	132,092	4,657,265
Taxes Receivable	97,681	-	12,320	110,001
Allowance for Uncollectible Taxes (credit)	(4,884)	-	(616)	(5,500)
Receivables (Net)	279,459	-	-	279,459
Due from Other Funds	-	216,926	-	216,926
Total Assets	$ 5,185,288	$ 245,029	$ 152,684	$ 5,583,001
LIABILITIES				
Accounts Payable	$ 39,648	$ 242,257	$ -	$ 281,905
Wages and Salaries Payable	81,010	2,772	-	83,782
Due to Other Funds	1,327,212	-	-	1,327,212
Unearned Revenues	33,906	-	8,888	42,794
Other Current Liabilities	143,394	-	-	143,394
Total Liabilities	1,625,170	245,029	8,888	1,879,087
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	92,797	-	11,704	104,501
Total Deferred Inflows of Resources	92,797	-	11,704	104,501
FUND BALANCES				
Retirement of Long-Term Debt	-	-	132,092	132,092
Unassigned Fund Balance	3,467,321	-	-	3,467,321
Total Fund Balances	3,467,321	-	132,092	3,599,413
Total Liabilities, Deferred Inflows & Fund Balances	$ 5,185,288	$ 245,029	$ 152,684	$ 5,583,001

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

EXHIBIT C-2

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

Total Fund Balances - Governmental Funds	$	3,599,413
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $26,174,162 and the accumulated depreciation was $4,737,689. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		10,684,919
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements,but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2015 capital outlays and debt principal payments is to increase net position.		6,234,088
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,276,027)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		69,507
Net Position of Governmental Activities	$	19,311,900

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

EXHIBIT C-3

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	$ 3,612,853	$ -	$ 455,308	$ 4,068,161
General Sales and Use Taxes	977,437	-	-	977,437
Other Taxes	307,814	-	-	307,814
Penalty and Interest on Taxes	20,882	-	2,289	23,171
Licenses and Permits	85,686	-	-	85,686
Intergovernmental Revenue and Grants	-	500,000	-	500,000
Charges for Services	1,033,371	-	-	1,033,371
Fines	87,675	-	-	87,675
Special Assessments	598,738	-	-	598,738
Investment Earnings	3,629	272	48	3,949
Rents and Royalties	9,000	-	-	9,000
Contributions & Donations from Private Sources	10,500	-	-	10,500
Other Revenue	63,105	-	-	63,105
Total Revenues	6,810,690	500,272	457,645	7,768,607
EXPENDITURES:				
Current:				
General Government	1,592,858	-	-	1,592,858
Public Safety:				
Police	1,712,123	-	-	1,712,123
Fire Protection	1,671,690	-	-	1,671,690
Public Works:				
Highways and Streets	264,205	200,059	-	464,264
Development Services	295,852	-	-	295,852
Mowing & Clearing	487,099	-	-	487,099
Debt Service:				
Bond Principal	-	-	380,000	380,000
Bond Interest	-	-	339,988	339,988
Capital Outlay:				
Capital Outlay	119,270	5,646,935	-	5,766,205
Total Expenditures	6,143,097	5,846,994	719,988	12,710,079
Excess (Deficiency) of Revenues Over (Under) Expenditures	667,593	(5,346,722)	(262,343)	(4,941,472)
OTHER FINANCING SOURCES (USES):				
Transfers In	20,000	5,346,722	375,584	5,742,306
Transfers Out (Use)	(575,636)	-	-	(575,636)
Total Other Financing Sources (Uses)	(555,636)	5,346,722	375,584	5,166,670
Net Change in Fund Balances	111,957	-	113,241	225,198
Fund Balance - October 1 (Beginning)	3,355,364	-	18,851	3,374,215
Fund Balance - September 30 (Ending)	$ 3,467,321	$ -	$ 132,092	$ 3,599,413

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

EXHIBIT C-4

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

Total Net Change in Fund Balances - Governmental Funds	$	225,198
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2015 capital outlays and debt principal payments is to increase the change in net position.		6,234,088
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(1,276,027)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(10,873)
Change in Net Position of Governmental Activities	$	5,172,386

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

EXHIBIT D-1

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

	Business Type Activities
	Water Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 500,420
Investments - Current	2,331,819
Restricted Assets - Current:	
Restricted Asset-Capital Improvements	516,893
Accounts Receivable-Net of Uncollectible Allowance	812,499
Due from Other Funds	1,110,286
Inventories	93,982
Total Current Assets	5,365,899
Noncurrent Assets:	
Capitalized Debt Issuance Costs	152,348
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	41,048,235
Buildings	873,955
Improvements other than Buildings	1,795,404
Machinery and Equipment	2,848,269
Accumulated Depreciation - Capital Assets	(25,332,832)
Construction in Progress	526,576
Total Noncurrent Assets	22,331,518
Total Assets	27,697,417
LIABILITIES	
Current Liabilities:	
Accounts Payable	114,953
Wages and Salaries Payable	59,567
Compensated Absences Payable	34,962
Accrued Interest Payable	69,503
Unearned Revenue	58,224
Bonds Payable - Current	640,000
Other Current Liabilities	366,075
Total Current Liabilities	1,343,284
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	12,110,000
Unamortized Premiums (Discounts) on Bonds	38,092
Total Noncurrent Liabilities	12,148,092
Total Liabilities	13,491,376
NET POSITION	
Net Investment in Capital Assets	8,874,186
Unrestricted Net Position	5,331,855
Total Net Position	$ 14,206,041

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

EXHIBIT D-2

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities Water Utility Fund
OPERATING REVENUES:	
Charges for Water Services	$ 3,080,812
Charges for Sewerage Service	2,119,734
Charges for Sanitation Service	798,027
Standby Charges	804
Other Revenue	28,850
Total Operating Revenues	6,028,227
OPERATING EXPENSES:	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,265,193
Personnel Services - Employee Benefits	553,787
Purchased Professional & Technical Services	655,477
Purchased Property Services	1,922,605
Other Operating Expenses	276,678
Supplies	13,043
Total Proprietary Fund Function - Utility Fund	4,686,783
Depreciation	1,438,722
Total Operating Expenses	6,125,505
Operating Income (Loss)	(97,278)
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(14,243)
Investment Earnings	3,826
Interest Expense - Non-Operating	(472,121)
Total Non-operating Revenue (Expenses)	(482,538)
Income (Loss) Before Contributions & Transfers	(579,816)
Capital Contributions	41,419
Transfers Out	(5,166,670)
Change in Net Position	(5,705,067)
Total Net Position October 1 (Beginning)	19,911,108
Total Net Position September 30 (Ending)	$ 14,206,041

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

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities Water Utility Fund
Cash Flows from Operating Activities:	
Cash Received from User Charges	$ 5,927,836
Cash Received from Others	28,850
Cash Payments to Employees for Services	(1,821,091)
Cash Payments for Suppliers	(23,817)
Cash Payments for Other Operating Expenses	(3,468,404)
Net Cash Provided by Operating Activities	643,374
Cash Flows from Non-Capital Financing Activities:	
Operating Transfer Out	(5,166,670)
Cash Flows from Capital & Related Financing Activities:	
Acquisition of Capital Assets	(1,000,625)
Capital Contributed by Others	41,419
Restricted Assets	2,404,486
Bond Principal Payments	(595,000)
Interest Paid	(473,730)
Net Cash Provided by Capital and Related Financing Activities	376,550
Cash Flows from Investing Activities:	
Interest on Investments	3,826
Net Increase(Decrease) in Cash and Cash Equivalents	(4,142,920)
Cash and Cash Equivalents at Beginning of the Year:	6,975,159
Cash and Cash Equivalents at the End of the Year:	$ 2,832,239

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

EXHIBIT D-3

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities Water Utility Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:	
Operating Income (Loss):	$ (97,278)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,438,722
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(100,623)
Decrease (increase) in Inventories	(10,774)
Decrease (increase) in Due From Other Funds	(710,487)
Increase (decrease) in Accounts Payable	96,843
Increase (decrease) in Accrued Liabilities	2,526
Increase (decrease) in Compensated Absences	(4,637)
Increase (decrease) in Other Current Liabilites	39,219
Increase (decrease) in Unearned Revenue	(10,137)
Net Cash Provided by Operating Activities	$ 643,374

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

EXHIBIT E-1

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2015

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 4,133
Investments - Current	1,313,848
Total Assets	$ 1,317,981
LIABILITIES	
Contracts Payable	$ 1,317,981
Total Liabilities	$ 1,317,981

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Horseshoe Bay, Texas, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The *Government Accounting Standards Board* (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

A. Creation of the City

At a special election held on September 10, 2005, voters approved incorporation of the City of Horseshoe Bay as a Type A, General-Law-Municipality. At a special election held on November 8, 2005, voters elected a mayor and five Council Members. In January, 2006, the City approved a strategic partnership agreement with the Lake LBJ Municipal Utility District. Pursuant to the terms of the agreement, on March 6, 2006, the City annexed the Lake LBJ Municipal Utility District. All assets, liabilities and equity of the District were transferred to the City and the District was subsequently dissolved. The City became a Home Rule City when a majority of the voters approved the Home Rule Charter at a special election held on May 9, 2009.

B. Reporting Entity

In evaluating how to define the government, for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the foregoing criteria, there were no component units identified that would require inclusion in this report.

C. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Horseshoe Bay nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

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

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

E. Fund Accounting

The City reports the following major funds:

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

2. **Capital Projects Fund** – The Capital Projects Fund accounts for all financial resources to acquire and construct street improvements throughout the City.

Proprietary Fund:

1. **Enterprise Fund** - The Water Utility Fund is operated as an Enterprise Fund.

Additionally, the City reports the following fund type(s):

1. **Special Revenue Funds** – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Fiduciary Funds:

1. **Agency Funds** - The City accounts for resources held for others in a custodial capacity in agency funds. The City's Agency Funds are Summit Rock Public Improvement District No. 1 and Escondido Public Improvement District No. 1.

F. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position

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

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

2. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

   The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Infrastructure	20-40
Streets	20
Buildings	30
Improvements	30
Equipment	7
Vehicles	5

3. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

   - Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
   - Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
   - Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
   - Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
   - Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

   The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

4. Implementation of GASB Accounting Standard:

   The City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under GASB 63 and 65, amounts previously reported as deferred charges as a part of total assets and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

5. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

6. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

   Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

7. The presentation of financial statements in conformity with generally accepted accounting 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

At September 30, 2015, the carrying amount of the City's deposits was $824,490 and the bank balance was $1,152,770. The City's cash deposits at September 30, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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

The carrying value of investments at September 30, 2015 was $7,505,977 (Texpool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2015 were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, Texpool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool's portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable $1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below $.995 or rises above $1.005.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City fiscal year.

The City contracted with the Llano Central Appraisal District and the Burnet Central Appraisal District for the appraisal and with Llano County Tax Assessor and Burnet County Appraisal District for the collection of taxes. For the 2014 tax roll, the assessed valuation was $1,631,759,665 and the tax rate was $.25 per $100 valuation (general fund - .222; debt service fund - .028).

C. Restricted Assets

Restricted assets represent cash that has been set aside for future payment of capital improvements. A summary of restricted assets at September 30, 2015 appears below:

Utility Fund	$	516,893

D. Property, Plant and Equipment

A summary of changes in property, plant and equipment accounts in the Water Utilities Fund follows:

	Balance 10/01/14	Additions	Deletions	Balance 09/30/15
Land	$ 419,563	$	$	$ 419,563
Infrastructure	42,477,015	366,624		42,843,639
Machinery and Equipment	2,679,796	168,473		2,848,269
Buildings & Improvements	873,955			873,955
Construction Work In Progress	61,048	465,528		526,576
Totals	$ 46,511,377	$ 1,000,625	$ -	$ 47,512,002
Accumulated Depreciation	(23,894,110)	(1,438,722)		(25,332,832)
Fixed Assets, Net	$ 22,617,267	$ (438,097)	$ -	$ 22,179,170

E. Capital Asset Activity

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

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	$ 127,356	$	$	$ 127,356
Streets	16,508,427	6,812,806		23,321,233
Machinery & Equipment	2,407,792	119,271	26,686	2,500,377
Buildings & Improvements	3,894,538			3,894,538
Construction Work in Progress	3,236,049	5,542,210	6,620,201	2,158,058
Totals at Historic Cost	$ 26,174,162	$ 12,474,287	$ 6,646,887	$ 32,001,562
Less Accumulated Depreciation	(4,737,689)	(1,276,027)	21,351	(5,992,365)
Governmental Activities Capital Assets, Net	$ 21,436,473	$ 11,198,260	$ 6,668,238	$ 26,009,197

Depreciation expense was charged to governmental functions as follows:	
General Government	$ 111,034
Police	119,348
Fire Protection	116,530
Development Services	20,623
Streets	874,537
Lot Mowing and Clearing	33,955
	$ 1,276,027

F. Changes in Long-Term Liabilities

A summary of changes in long-term debt of the Governmental Funds follows:

Governmental Activities:	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Combination Tax & Revenue Bonds - Series 2011	1.5%	$ 6,000,000	$ 159,902	$ 5,245,000	$	$ 265,000	$ 4,980,000	$ 270,000
Combination Tax & Revenue Bonds - Series 2014	2.0 - 4.0%	5,210,000	180,085	5,210,000		115,000	5,095,000	145,000
Premium Tax & Revenue Bonds - Series 2014	N/A	46,672	N/A	45,063		1,827	43,236	N/A
Compensated Absences	N/A	N/A	N/A	251,491			251,491	N/A
Governmental Activity Long-Term Debt		$ 11,255,672	$ 339,987	$ 10,751,554	$ -	$ 381,827	$ 10,369,727	$ 415,000

A summary of changes in long-term debt of the Utility Fund follows:

	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General Obligation Refunding Bonds - Series 2007	4.0%	$ 7,500,000	$ 219,372	$ 5,430,000	$ -	325,000	$ 5,105,000	$ 340,000
Combination Tax & Revenue Bonds - Series 2011	1.5%	3,800,000	101,390	3,325,000	-	165,000	3,160,000	170,000
Combination Tax & Revenue Bonds - Series 2014	2.0 - 4.0%	4,590,000	158,595	4,590,000	-	105,000	4,485,000	130,000
Premium Tax & Revenue Bonds - Series 2014	N/A	40,237	N/A	39,701	-	1,609	38,092	N/A
Business-Type Activity Long-Term Debt		$ 15,930,237	$ 479,357	$ 13,384,701	$ -	$ 596,609	$ 12,788,092	$ 640,000

During 2007, the City issued $7,500,000 General Obligation Refunding Bonds, Series 2007 for the purpose of providing funds to refund the outstanding Revenue Notes, Series 2004. These revenue notes were called and were redeemed on December 27, 2007 by depositing $7,527,563 into an escrow account. The Series 2004 notes have been defeased and removed as a liability of the City. The Series 2007 bonds mature on August 1, each of the years 2008 through 2027, bearing interest at 4.04%. The refunding bonds resulted in gross debt service savings of $130,366 and the net present value savings of $102,804.

During 2011, the City issued $9,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2011 to acquire and construct street improvements and related drainage improvements throughout the City and to reimburse for improvements made to the City's water and wastewater system. The Certificates of Obligation were rated AA by Standard and Poor's. The repayment of the certificates is secured through the levy of a direct and continuing ad valorem tax against all taxable property within the City. Surplus Revenues are irrevocably pledged equally and ratable to the payment of the principal of and interest on the certificates, as the same become due to the extent the taxes shall ever be insufficient or unavailable.

During 2014, the City issued $9,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2014 to acquire and construct street improvements and expand utility infrastructure. The Certificates of Obligation were rated AA+ by Standard and Poor's. The repayment of the certificates is secured through the levy of a direct and continuing ad valorem tax against all taxable property within the City. The Certificates are also secured by a limited pledge of not to exceed $1,000 of the surplus revenues of the City's water and wastewater system remaining after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City's water and wastewater system.

The annual requirements to amortize the debt are as follows:

September 30	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Total
2016	$ 415,000	$ 309,548	$ 640,000	440,716	$ 1,805,268
2017	425,000	300,461	660,000	420,495	1,805,956
2018	430,000	290,524	680,000	399,065	1,799,589
2019	445,000	280,349	700,000	377,056	1,802,405
2020	450,000	269,716	725,000	354,124	1,798,838
2021-2025	2,505,000	1,156,594	4,040,000	1,381,867	9,083,461
2026-2030	2,965,000	718,826	3,155,000	648,122	7,485,048
2031-2035	1,245,000	341,127	1,090,000	301,125	2,977,252
2036-2040	1,195,000	91,008	1,060,000	80,356	2,426,364
	$ 10,075,000	$ 3,756,252	$ 12,750,000	$ 4,402,928	$ 30,984,180

G. Risk Management

The City of Horseshoe Bay is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God and personnel risks which relate to workers compensation.

The City contracts with the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) to provide insurance coverage for identified risks. TMLIRP is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TMLIRP. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2015 were $157,243.

H. Retirement Plan

Beginning with the first day of employment, the City will accrue, on behalf of the employee, an amount currently equal to 5% of the employee's regular base salary, not including overtime, until the employee's first anniversary date. The City will then distribute the total accrual for the first year of employment into the effective pension plan on behalf of the employee.

The City will continue to contribute an amount currently equal to 5% of the employee's regular base salary, not including overtime, into the effective pension plan until the employee's five-year anniversary date. After five (5) years of continuous employment, the City's contribution to the currently effective pension plan will be increased by 2.5% of the regular salary, a current total of 7.5%.

All City contributions paid into the pension plan on behalf of the employee are vested 100% to the individual employee after the employee's first anniversary date. However, if an employee terminates employment with the City at any time prior to their first anniversary date, they are not entitled to any of the City's accrued pension amount.

The City will match each employee's contribution to the currently effective pension plan in an amount not to exceed 5% of the employee's regular base salary, not including overtime, starting as soon as the employee begins to contribute to the plan. If the employee contributes during the first year of employment, matching funds will be accrued and paid to the current pension plan after completion of the first year of employment.

The plan is administered by Nationwide Retirements Solutions, Inc. A copy of the annual report is available for review at the City Office.

A summary of transactions is shown below:

Beginning balance	$ 3,268,558
Contributions	416,329
Investment earnings	22,063
Withdrawals	(260,850)
Fees	(584)
Ending balance	$ 3,445,516

I. Employee Insurance Benefits

All regular and full time employees of the City are eligible to choose a medical plan from three plan options provided through Blue Cross Blue Shield. The City provides a base plan; employees can choose the base plan or a high-deductible plan with a Health Saving Account (HSA) or a lower deductible plan that allows the employee to pay for the increase in premium. The City pays the base plan's premium amount for employees regardless of the plan selected and 50% of the base plan premium amount for eligible dependents. The City provides group dental insurance through Blue Cross Blue Shield and pays the premium for eligible employees and 50% of the premium for eligible dependents.

J. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2015 and 2014. The City paid interest in the amount of $473,730 in 2015 and $339,910 in 2014.

K. Summit Rock Public Improvement District No. 1

On March 20, 2007 Summit Rock Public Improvement District No. 1 was created by approved Resolution No. RES 07-03-20A. In February 2012, the City approved an ordinance changing the name from Skywater Over Horseshoe Bay Public Improvement District No. 1 to Summit Rock Public Improvement District No. 1. The City will levy, as special assessments, maximum assessments of $20,750,000 on all of the assessable property within the District to pay the improvement costs as set forth.

As the improvement assessments are levied by the City and collected by the Llano County Tax Assessor-Collector and such improvement assessments are delivered to the City, the City shall require that such improvement assessments be irrevocably placed into an interest bearing segregated bank account with a financial institution selected in accordance with applicable state statues as required. The improvement assessments shall be held in trust and shall not be withdrawn except upon written authorization and certification from the City that such funds are necessary; to reimburse the owner for its authorized owner expenditures (as defined in the Development Agreement) for improvement costs or, to pay administration costs of the District.

The City shall make aggregate disbursements solely to pay for improvement costs up to $20,750,000. Reimbursements to the owner for authorized owner expenditures shall be made by the City on March 6 and August 1 of each year. All such disbursements of improvement assessments shall be made to the owner or the owner's assignee. No reimbursements shall be made unless the owner has submitted its request for reimbursement to the City ten days prior to such date. No reimbursements have been made from the PID.

Pursuant to the November 29, 2011 Water and Wastewater Agreement, the owner assigned and transferred all rights to the City to reimbursement from the PID until a $5.4 million note payable to the City and all obligations related thereto are fully satisfied.

L. Escondido Public Improvement District No. 1

On October 16, 2007, the City Council passed and approved resolutions (RES-07-10-16B and RES 07-11-13B) approving and authorizing the creation of the Escondido Public Improvement District (PID) to finance the PID costs for the benefit of certain property in the PID, all of which is located within the corporate limits of the City.

The Service and Assessment Plan has been prepared pursuant to the required section codes of chapter 372 of the Texas Local Government Code. MuniCap, Inc., of Columbia, Maryland has been appointed and designated as the initial Administrator of the Service and Assessment Plan and the assessments levied.

On September 30, 2008 Special Assessment Revenue Bonds, Series 2008 in the amount of $5,475,000 were issued, in accordance with the above resolutions. The bonds will be payable solely from, and secured solely by, the pledged revenues. Pledged revenues means those revenues pledged as security for the payment of the bonds pursuant to the Indenture, consisting primarily of, with respect to each parcel of land against which an assessment has been levied, the portion of each annual payment of such assessment allocated to principal and interest, as shown on the assessment roll. The bonds will not be general obligations of the City and will not constitute a debt within the meaning of the constitution of the state or a pledge of faith and credit of the City.

The City will certify the assessment roll upon receipt from the Administrator of the assessment roll. After certifying the assessment roll, the City will forward it to Llano County Tax Collector/Assessor for preparation and distribution of bills. Collections by Llano County Tax Collector/Assessor will be remitted to the City and, the City will remit collections to the Administrator.

M. Other Taxes

Other taxes consisted of the following:

Description	Amount
Franchise Tax	$ 232,243
Mixed Beverage Tax	75,571
	$ 307,814

N. Letters of Credit

Summit Rock Communities, LLC has established an irrevocable standby letter of credit with the IBC Bank for the benefit of the City of Horseshoe Bay, Texas. The letter of credit was issued on December 12, 2011 in the amount of $2,000,000, to secure the funding of a new water tank, with an expiration date of December 15, 2015. Subsequent to the audit period, the letter of credit was returned to Summit Rock Communities, LLC.

O. Contracts

Firm Water Contract – The City entered into a firm water contract with the Lower Colorado River Authority in September , 2010. The contract is for a term of forty (40) years ending in 2050.

Solid Waste Collection and Disposal Contract – The City entered into a solid waste collection and disposal contract with Progressive Waste Solutions of TX, Inc. in November, 2012. The contract is for a term of forty-seven (47) months ending September 30, 2016.

P. Excess of Expenditures Over Appropriations

Actual expenditures exceeded appropriations in the General Fund line items Fire Protection, Streets and Capital Outlay but not in total.

Q. Subsequent Events

The City has evaluated subsequent events through June 22, 2016, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.

EXHIBIT G-1

CITY OF HORSESHOE BAY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	$ 3,573,500	$ 3,573,500	$ 3,612,853	$ 39,353
General Sales and Use Taxes	835,000	835,000	977,437	142,437
Other Taxes	257,000	257,000	307,814	50,814
Penalty and Interest on Taxes	25,000	25,000	20,882	(4,118)
Licenses and Permits	89,250	89,250	85,686	(3,564)
Charges for Services	1,175,750	1,175,750	1,033,371	(142,379)
Fines	38,500	38,500	87,675	49,175
Special Assessments	510,500	510,500	598,738	88,238
Investment Earnings	5,000	5,000	3,629	(1,371)
Rents and Royalties	9,000	9,000	9,000	-
Contributions & Donations from Private Sources	10,000	10,000	10,500	500
Other Revenue	16,250	16,250	63,105	46,855
Total Revenues	6,544,750	6,544,750	6,810,690	265,940
EXPENDITURES:				
Current:				
General Government	1,717,000	1,717,000	1,592,858	124,142
Public Safety:				
Police	1,756,500	1,762,333	1,712,123	50,210
Fire Protection	1,669,500	1,669,500	1,671,690	(2,190)
Public Works:				
Highways and Streets	230,000	230,000	264,205	(34,205)
Development Services	316,250	316,250	295,852	20,398
Mowing & Clearing	615,000	615,000	487,099	127,901
Capital Outlay:				
Capital Outlay	62,500	62,500	119,270	(56,770)
Total Expenditures	6,366,750	6,372,583	6,143,097	229,486
Excess (Deficiency) of Revenues Over (Under) Expenditures	178,000	172,167	667,593	495,426
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	20,000	20,000
Transfers Out (Use)	-	-	(575,636)	(575,636)
Total Other Financing Sources (Uses)	-	-	(555,636)	(555,636)
Net Change	178,000	172,167	111,957	(60,210)
Fund Balance - October 1 (Beginning)	3,355,364	3,355,364	3,355,364	-
Fund Balance - September 30 (Ending)	$ 3,533,364	$ 3,527,531	$ 3,467,321	$ (60,210)

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

Texas
New York
Washington, DC
Connecticut
Seattle
Dubai
London

Bracewell LLP
111 Congress Avenue
Suite 2300
Austin, Texas 78701-4061

512.472.7800 Office
800.404.3970 Fax

[Closing Date]

$ _____
CITY OF HORSESHOE BAY, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2016

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

> CITY OF HORSESHOE BAY, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2016, dated September 15, 2016.
>
> The Certificates mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Certificates and in the Ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Certificate No. T-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

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

(B) A continuing ad valorem tax upon all taxable property within the City of Horseshoe Bay, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of the surplus revenues of the Issuer's water and wastewater system as provided in the Ordinance.

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

IT IS OUR FURTHER OPINION that, under existing law:

(1) Interest on the Certificates is excludable from gross income of the owners thereof for federal income tax purposes; and

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

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

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

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

The opinions set forth above are based on existing law which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement 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 Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.